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NATIONAL AND STATE BANKS.

The national banking system was recommended to Congress by Secretary Chase in his first annual report, December, 1861. He urged its adoption both as a measure of currency reform and as a means of replenishing the public treasury. As a matter of fact, the act brought little aid to the treasury until after the need of it had passed by. The war ended practically in April, 1865. The whole amount of national bank notes issued up to the third of that month was only \$98,896,488. The sum total of fiscal aid gained by the operation of the act up to that time therefore did not exceed \$109,000,000, and this was only 3 6-10 per cent of the borrowings of the Government.

THE TAX ON STATE BANKS' NOTES.

The national bank bill was not favored by Congress during the first or the second year of the war. It was reported adversely by the Committee of Ways and Means on the eighth of July, 1862. In December following the Secretary renewed his recommendation with great earnestness, and the recommendation was reinforced by President Lincoln in his annual message. Notwithstanding all this, the opposition to the measure in Congress was exceedingly stubborn. The bill was started this time in the Senate, where it was passed

February 12, 1863, by a vote of twenty-three to twenty-one. A few days later it passed the House by seventy-eight to sixty-four. It was revised and repassed on the third of June in the following year, but neither in the original nor in the amended act was there any discriminating tax on State bank notes. This tax was an afterthought. It was proposed by Mr. Hooper, of Massachusetts, in the House, on the seventeenth of February, 1865, and in the form in which he offered it, it was defeated. It was again offered in substantially the shape in which it now stands, on the same day, by Mr. Wilson, of Iowa, and it was adopted by an accident. The vote was sixty-eight yeas to sixty-seven nays, but Mr. Brooks, of New York, who had bitterly opposed it in debate, voted in the affirmative in order to move a reconsideration. When he moved the reconsideration, Mr. Washburne, of Illinois, moved to lay that motion on the table, and on the latter motion the vote was a tie, seventy-one to seventy-one. The speaker then voted in the affirmative, and his vote saved the Wilson amendment. If Mr. Brooks had voted in the first instance as he had fought, there would have been a majority of one against it.

In the Senate the Committee on Finance reported adversely to the tax, but was overruled by a majority of two. I mention this merely to show how small was the preponderance of sentiment, if any, in favor of the tax at the time when it was enacted. Although enacted on the third of March, 1865, the tax did not go into effect until August 1, 1866, or fifteen months after the close of the war.

The constitutionality of the tax has been called in question. The Supreme Court held, in the case of *Veazie Bank vs. Fenno*, that it was not repugnant to the Constitution. There may be room for difference of opinion as to the scope of the decision, but according to my reading the court held that the right of Congress to tax bank notes existed, and that the judicial department of the Government could not prescribe limitations to the legislative department upon the exercise of its acknowledged powers.

A different question is raised when we look at the moral and economical features of the tax. If you can tax bank notes, not for the purposes of revenue, *i.e.*, not for the usual purposes of taxation, but for something quite different, you may tax anybody or anything on the same principles. The debate shows that the tax was imposed to kill State bank notes, not to obtain money for public uses. Such a power can be invoked to destroy any industry, to take away any man's livelihood, and to reduce him to beggary. This power was invoked a few years ago to destroy the oleomargarine industry, and there is now pending a bill, which has passed one branch of Congress, to tax out of existence the business of making a certain class of contracts called "futures." This bill has created far more commotion during the past twelve months than the tax on State bank notes ever did. It was and is advocated by some who have no pecuniary interest to serve, as an anti-gambling statute. Dealing in futures, they say, is gambling. Ought we not to suppress gambling by every means in our power? Whether dealing in futures is gambling or not, whether some of it is gambling and some not, I observe that orthodoxy is brought in to give a lift to every such measure. It was especially so in the oleomargarine case. The making of this article was pronounced immoral and even infamous, although it turned out that the most deceptive and deleterious compounds in the market going under the name and guise of butter were really butter done over with chemicals. Now orthodoxy, according to a well-known formula, is my doxy and heterodoxy is your doxy. If I want to tax your business out of existence because it interferes with mine, I shall begin by persuading Congressmen that you are a bad fellow and that your influence over the young is pernicious. I confess that I was captivated with the idea of taxing the Louisiana Lottery out of existence by act of Congress, but I see now that a better way was found. I hope, if another round is to be fought with that monster, that means may be devised for overcoming it without resort to so doubtful an expedient; for there is

no limit to its oppressions if the principle is admitted that you may use the taxing power for other purposes than those of the public fisc.

But we are confronted with the fact that the thing has been done. If the means were questionable, still *we* are not responsible. The blame, if any, is on the last generation. Are we required, upon sentimental or other grounds, to undo what they did, even at the risk of producing chaos? I consider the sin of inflicting a bad currency upon the people the deadliest that a government can commit. Hence it becomes us, before answering this question, to look at the probable consequences.

If we are to assume that one of the consequences will be the circulation of bank notes as bad as some of those which existed before the war, no further argument is needed. There were good banks and bad banks before the war. There were good bank systems and bad bank systems. Let us glance at some of both kinds.

STATE BANK OF INDIANA.

The State Bank of Indiana was incorporated by a special charter in 1834. The capital stock was originally fixed at \$1,600,000, and of this sum the State was to subscribe one-half and private individuals the other half. The State really supplied the whole capital by an issue of bank bonds, and advanced one-half of it to private individuals on mortgage security. The capital was afterwards increased, the State reserving to itself the option to take one-half of the several increments. All the stock subscriptions were required to be paid in specie. The State Bank consisted of a president and board of directors at Indianapolis, who were a supervising body, but who had no capital under their control and transacted none of the details of the business. All the details were performed by the branches of the State Bank, originally ten, but increased in number from time to time. The branches were managed by the private shareholders exclusively. The stock subscriptions were made by each branch separately, the capital of

each being \$160,000, of which the State took \$80,000 and private persons \$80,000. The earnings and dividends of each branch belonged to their own shareholders exclusively, but each branch was liable for the debts of every other branch. They were independent of each other in the matter of assets, but were united as to liabilities. This was the admirable keystone of the arch.

The president and four directors of the bank (the parent institution) were chosen by the State legislature to hold office for five years, and one director of the same was elected by each branch.

The kind of business to be done was defined in the law. It was the usual banking business, including the power to issue circulating notes. The only limit on the amount of circulating notes was embraced in a provision that the debts due to or from any branch (except deposits) should not be more than double the capital of that branch. Theoretically, therefore, each or every branch might have notes outstanding to double the amount of its capital minus any debts it owed to other banks. An amendment was passed in 1836 allowing discounts to be made to the extent of two and one-half times the capital stock. They were not allowed to lend on mortgage security or to deal in real estate, except such as might come to them in the way of security for loans previously made; and in such cases they were required to offer it at public sale once each year.

In order to prevent the branch banks from falling under the control of individuals or cliques, it was provided that at elections of directors no person should cast more than 100 votes, however large his holdings might be. Holders of one to four shares might cast one vote for each share; four to thirty shares, one vote for every two shares; thirty to ninety shares, one vote for every four shares, and so on—a scheme of minority representation borrowed from the Massachusetts law of 1828. No branch could lend money on the security of its own stock. No officer or director could borrow on terms different from the public, nor could they endorse for

each other, nor could they vote on questions where they were interested. On all applications for loans above \$500, a majority vote of five-sevenths of the board was necessary, and this must be entered on the minutes with the names of the directors so voting. Directors were individually liable for losses resulting from infraction of the law, unless they had voted against the same and caused their votes to be entered on the minutes, and had notified the Governor of the State of such infraction forthwith, and had published their dissent in the nearest newspaper. Any absent director should be deemed to have concurred in the action of the board, unless he should make his dissent known in like manner within six months.

Such were the leading features of this monumental bank. It continued until the expiration of its charter to be a great and beneficent financial institution, highly profitable to its shareholders and advantageous to the community. When the crash of 1837 came, it held Government deposits to the amount of \$1,500,000, all of which it paid in the usual course of business. The first instalment of this deposit (\$80,000 gold) was conveyed in a stage-coach over the Alleghany Mountains to Washington City, by the late J. F. D. Lanier, of New York, who was then President of the Madison Branch Bank. When this money was delivered, the Secretary of the Treasury (Levi Woodbury) said to Mr. Lanier that his bank was the only one in the country holding Government deposits that had offered to pay any specie at all.* The bank was rechartered as the "Bank of the State of Indiana" in 1855. It was one of the few institutions that did not suspend specie payments in the panic of 1857. The State very properly ceased to be a shareholder when the first charter expired. Its participation was deemed necessary in the beginning to procure the requisite capital, but it wisely kept its own hands off the management. The State banks of Illinois and Kentucky, which were owned wholly by the States, and were managed by public officers, soon went to smash. That of

*Memoir of J. F. D. Lanier, published by his family.

Indiana paid into the State Treasury twelve to fourteen per cent per annum in dividends, besides nearly doubling the original capital at the "round up." This money was turned into the State School Fund.*

When the State of Indiana adopted a new constitution, in 1851, a clause was inserted prohibiting the State from becoming a shareholder in any bank or other corporation. Another clause authorized the Legislature to pass a general banking law, and a third clause provided that noteholders should be preferred creditors of failed banks.

STATE BANK OF OHIO.

The State Bank of Ohio had a different origin and was of later birth. It was made a part of a banking law of wide scope passed in 1845. It seems to have been modeled after the Indiana law, with a few differences. The State of Ohio had no pecuniary interest in it. There were a number of banks existing in the State when the law of 1845 was passed, and the law authorized the formation of others, but restricted

*Mr. Lucius B. Swift, of Indianapolis, has kindly made a search, at my instance, for the exact amount of surplus turned over by the branch banks to the State of Indiana. No record containing all this information was found, but a communication made by the State Bank under date of January 7, 1859, reports the winding up of nine branches and gives a statement of the surplus returned to shareholders in addition to the annual dividends and the original capital stock, the par value of which was \$50 per share, viz:

BRANCHES.	SURPLUS PER SHARE.
Lawrenceburgh.....	\$40.53.
Richmond.....	37.72.
New Albany.....	25.00.
Evansville.....	26.65.
Bedford.....	8.50.
Terre Haute.....	30.28.
La Fayette.....	27.00.
South Bend.....	40.11.
Michigan City.....	30.75.

A report of the Commissioners of the Sinking Fund, dated November 1, 1858, says that the State had received up to that time a net profit, from its bank investment, of \$2,780,604.36 after deducting the interest paid on its bank bonds. There were still some branches which had not turned in their surplus and were not included in this statement. Mr. Lanier says that the State's net profit was about \$3,500,000.

I have considered it worth while to rescue this notable tribute to sound banking principles from the weltering mass of bank failures of the period covered, *i. e.*, 1834-1859.

the aggregate amount of capital to a fixed sum and appointed commissioners to parcel it out, as though banking were a necessary evil, like dynamite. The law provided that any number of banks, not less than seven then existing, or to be organized thereafter, might become branches of the State Bank of Ohio. The latter, like the State Bank of Indiana, was a mere Board of Control, and was so denominated in the law. The central and governing idea of this law was the security of the noteholder. Note issuing was proportioned to capital in the following manner: "Any branch might issue \$200,000 of notes for the first \$100,000 of capital; \$150,000 of notes for the second \$100,000 of capital; \$125,000 of notes for the third \$100,000 of capital; \$100,000 of notes for the fourth \$100,000 of capital, and \$75,000 of notes for each additional \$100,000 of capital. Each branch was required to deposit with the Board of Control ten per cent of the amount of its circulating notes, either in specie or in bonds of the State of Ohio or of the United States, as a safety fund for the protection of the holders of notes of any or all the branches. The Board of Control might invest any money belonging to the safety fund in the bonds of Ohio or of the United States, or in mortgage on real estate in the county where the branch was situated, worth double the amount of the loan exclusive of buildings or other destructible property. Each branch was liable for the circulating notes, but not for the general debts of the other branches. In case of the failure of any branch to redeem its notes, the Board of Control was to make an assessment *pro rata* on the other branches, and reimburse them as soon as the assets in the safety fund could be disposed of; and then the safety fund was to be reimbursed out of the assets of the failed branch before any other creditor was paid. The State Bank of Ohio had thirty-six branches and was highly successful.

LOUISIANA BANK ACT OF 1842.

The State of Louisiana had her full share of bank misery in 1837 and later. Her banks suspended specie payments,

and so remained until 1842. In that year the State passed a banking law which was, in nearly all respects, a model for other States and countries.

The principal features of this law were the requirement (1) of a specie reserve equal to one-third of all its liabilities to the public; (2) the other two-thirds of its liabilities to be represented by commercial paper having not more than ninety days to run; (3) all commercial paper to be paid at maturity; and if not paid, or if an extension were asked for, the account of the party to be closed and his name to be sent to the other banks as a delinquent; (4) all banks to be examined by a board of State officers quarterly or oftener; (5) bank directors to be individually liable for all loans or investments made in violation of the law, unless they could show that they had voted against the same if present; (6) no bank to have less than fifty shareholders, having at least thirty shares each; (7) any director going out of the State for more than thirty days, or absenting himself from five successive meetings of the board, to be deemed to have resigned, and his vacancy to be filled at once; (8) no bank to pay out any notes but its own; (9) all banks to pay their balances to each other in specie every Saturday, under penalty of being immediately put in liquidation; (10) no bank to purchase its own shares or lend on its own shares more than thirty per cent of the market value thereof.

This law had one feature which cannot be approved. It allowed some loans to be made on mortgage security, but it restricted such loans to the bank's capital. No part of the deposits could be lent except on commercial paper maturing within ninety days. I judge that not many mortgage loans were made by the Louisiana banks, since none of them suspended in the panic of 1857, although most of the banks of the country were temporarily closed by that catastrophe. Mortgage loans are all right in themselves, but they are no part of the banking business. I think that the Louisiana Bank Act of 1842 was eminently scientific. It was the first law passed by any State requiring a definite amount of specie to be kept

as a reserve. The Louisiana law required no pledged security for the circulating notes of banks, nor did it put any limit on the amount of their issues. All this was covered, and amply covered, by requiring thirty-three per cent of specie against all liabilities, whether deposits or notes, the balance of the assets to be in mercantile paper having not more than ninety days to run.

Under this law, Louisiana became in 1860 the fourth State in the Union in point of banking capital and the second in point of specie holdings. I think, however, that the requirement of a thirty-three per cent reserve of coin (or, as we say now, of "lawful money") was excessive, and that the twenty-five per cent in larger cities and fifteen per cent in other places, required of national banks, is ample. It is a matter of history that the Louisiana Bank Act of 1842 was strictly and intelligently enforced until the city of New Orleans was captured during the civil war.

MASSACHUSETTS AND THE SUFFOLK BANK SYSTEM.

The Massachusetts Banking Law, as it existed before the war, consisted of two parts, the first part relating to chartered banks. This was one of the best banking laws ever produced. No individual could hold more than one-half the stock of any bank, no person could be a director of more than one bank, no person could be a director whose stock was pledged for debt. Neither the debts nor the credits of a bank could exceed twice the capital stock paid in, except for deposits and for debts to or from other banks. Directors were personally liable for violation of this clause unless they dissented or were absent, in which case they must notify the Bank Commissioners of the State forthwith. No bank could pay out any notes but its own, or issue any notes, directly or indirectly, except at its own banking-house, or issue any notes with the understanding that they should be kept out a certain length of time. No bank could make a loan repayable in anything except specie or its own notes. In case of bank failure the noteholders were to be

paid first. Each bank was required to keep fifteen per cent of specie as a reserve against both circulation and deposits, but country banks might reckon their balances in Boston banks payable on demand as specie. This specie-reserve clause was passed in 1858, after a hard struggle. It was copied from the Louisiana Act of 1842, but the amount of the specie reserve was only one-half of that required in Louisiana.* When gold was paid out, it must be paid by weight. This was an old law of 1803 re-enacted at every revision of the banking laws down to and including 1860. There was a provision that if any new banks were chartered with greater privileges than those here enumerated, the same privileges should extend to all other banks. This proviso was inserted in the Act of 1828 and in every subsequent revision. The Act of 1828 provided that at elections for bank directors each stockholder should be entitled to one vote for the first share and to one vote for every two additional shares, provided that no person should have more than ten votes. This was re-enacted in the revision of 1835, but was dropped in the revision of 1860. The second part of the Massachusetts law was the free banking system. It was passed in 1851 and re-enacted in the revision of 1860, but as only seven banks were organized under it we need not dwell on its provisions.

The distinguishing feature of Massachusetts banking was the daily redemption of all New England bank notes that reached Boston. This redemption took place at the Suffolk Bank, and hence was called the Suffolk Bank system. It was a voluntary arrangement like a clearing-house. It began in 1825. The country banks resisted it at first, but they were forced into it by a systematic "run" on every one that did not come in and provide for the redemption of its notes at the financial centre. The Suffolk Bank system was facilitated by the provision of law that no bank could pay out any notes except its own, but it began before that law was passed. In this way the goodness of all circulating notes was subjected to a daily test.

*See *Bankers' Magazine*, November, 1877, page 351.

It is important to observe that in each of the three systems we have examined, viz., the State Bank of Indiana and the Louisiana and Massachusetts laws, the governing principle was that the bank's assets should redeem its circulating notes. They rested upon the true theory that any system which takes diligent care of the assets will surely take care of the circulation, and they demonstrated in a long series of years by splendid results that such assurance is not beyond the reach of the State's administrative powers.

FREE BANKING LAW OF NEW YORK.

The next great step in the evolution of banking in the United States was what is called the free-bank system. Notwithstanding the praise that has been bestowed upon it, and notwithstanding its adoption as one feature of the National Banking Law, I think that it was a step backward and that it is destined to perish. It had its origin in the State of New York in 1838, although the State of Michigan had something resembling it a year earlier. Prior to that time bank charters in New York were a part of the spoils system of politics. Accustomed as we are to the spoils system of to-day, it sounds oddly to read that bank charters were granted by Whig and Democratic Legislatures only to their own partisans. Not only was this the common practice, but the shares in banks, or the rights to subscribe to them, were parceled out by political "bosses" in the several counties. Of course, corruption flourished in such a soil. The people became exasperated by the indecencies witnessed at Albany. A reaction in favor of equal rights was the natural consequence, and out of this came the Free-Banking Law of 1838. Under this law the comptroller was authorized to issue circulating notes to any association organizing itself as a bank and depositing stocks of the United States, or of any State, or bonds secured by mortgage on real estate of a certain specified grade. The system had a bad start. Within five years after the law was passed twenty-nine banks that had organized under it failed, and the deposited securities realized

only seventy-four cents on the dollar of the outstanding notes. This led to changes in the law by which all State bonds were ruled out except those of New York, and the mortgage securities were keyed up to a high pitch, but still not high enough. Under the present banking law of New York (revision of 1892) the security required for circulating notes consists of the bonds of the United States, or of the State of New York, or of any county or incorporated city in the State, or of mortgages on improved real property worth seventy-five per cent more than the loan. Individual bankers can issue circulating notes on the same terms.

The free-banking system was adopted in Ohio in 1845, but did not flourish there, because it came in competition with the State Bank and branches that were started at the same time. It was adopted in Massachusetts in 1851, as has been remarked, but it gained no foothold there because it was really inferior to the Suffolk Bank system, which already held the ground.

FREE BANKING IN THE WEST.

The State of Illinois passed her Free-Banking Law in 1851. It was submitted to a vote of the people in November of that year and ratified. It provided that any number of persons might organize a bank, but that no bank should have a less capital than \$50,000. It did not require that a bank should have any directors. The bank's capital might consist wholly of bonds of States or the United States deposited with the State Auditor as security for its circulating notes. The auditor could deliver to the bank in circulating notes eighty per cent. of the market value of the securities. No examination of the affairs of the banks by public officers could be had except on the affidavit of the shareholders, and then only for the purpose of ascertaining the safety of the investments. A subsequent amendment provided for an annual examination by bank commissioners of the securities deposited against circulating notes. The banks were allowed to pay out the notes of any specie-paying banks of the United States or of Canada, no matter how remote.

These are all the essential provisions of the Free-Banking Law of Illinois as it existed before the war. You will observe that the only idea in the law is security for circulating notes. Each bank was a kind of slot machine. You dropped in a State bond and a lot of bank notes came out, and that was all the banking that was expected or contemplated in the law.

The Free Banking Law of Indiana, passed May 28, 1852, was very similar to that of Illinois. The differences were, that in Indiana the auditor might issue circulating notes to the full amount (instead of eighty per cent.) of the securities deposited, and that each bank must have specie in its own vaults equal to twelve and one-half per cent. of its circulating notes.

The Free-Banking Law of Wisconsin, passed in 1853, was, perhaps, the worst of all. It did violence to banking principles in a variety of ways. It allowed the bank comptroller to issue circulating notes to the full amount of the bonds of States deposited with him by banks. It allowed the comptroller also to receive the first mortgage bonds of any railroad in the State twenty miles long, or divisional mortgage bonds on sections of road of not less than forty miles, such road to be first inspected as to its physical condition by the governor, the attorney-general and the bank comptroller, or any two of them. On such securities eighty per cent. of circulating notes could be issued, and one-half of the securities of any bank might consist of railroad bonds of this description. Directors or stockholders were required to give their personal bonds to the extent of one-fourth of the amount of the circulating notes, as security against depreciation of the other securities. Except in this particular the shareholders were not liable beyond the amount of their capital invested. The banks might lend money on real estate security to any extent.

CAUSES OF THEIR FAILURE.

Most of these so-called free banks turned out to be bad when the first real test came. Out of ninety-four free banks

in Indiana fifty-one had suspended even before the panic of 1857. The theory of their existence was that, if bank notes were secured by the pledge of marketable bonds or stocks lodged in the hands of a State officer, it was of no consequence what else the bank had or did not have. The idea that a bank's assets should redeem its notes did not enter into this scheme at all. Since there were examples of good banking present to the eyesight, like the State Bank of Indiana, we may reasonably ask why such a mistake was made. I can only answer this question in one way. Banking made itself known to the great mass of the community only through failed bank notes. One failed bank of small calibre would make more impression on the public mind than a dozen others which never closed their doors. This is on the principle that one lost sheep gives its owner more concern than ninety-nine that go not astray. So the legislative mind, which generally follows the public mind, became exclusively fixed on security for bank notes, to the neglect of all other branches of the business.

In practice it was hardly necessary for the bank to have a place of business if its notes were secured, and I remember that in some instances where attempts were made in Illinois to present notes for redemption at the bank's counter no counter was found, but merely a hired room in some place remote from any railway station and situated on some bottomless prairie road. As the country banks had a decided advantage over the city banks in the way of nest-hiding, the latter resorted first to the device of not paying out their own notes at all, but borrowing those of Eastern banks instead. Facilities for travel were too good, however, in the East. The notes paid out in Illinois and Wisconsin went home to be converted into New York and Boston funds too rapidly. So the city bankers went to the State of Georgia and started a lot of subordinate banks there, with whose notes they flooded the Northwest from Chicago as a radiating point. None of these currency mills actually failed, but the rate of exchange on New York was measured

by the cost of sending the notes to their several Georgia houses for redemption, which cost was at that time considerable.

The Western free banks for the most part went down in the crash of 1857, and again in that of 1861, and their securities being pressed on the market simultaneously sank to low figures, the notes falling even lower than the securities. Whatever may have been the design of the law-makers (and there is no reason for doubting that it was good), it turned out to be a mere scheme to enable speculators to sell bonds to the public, and continue to draw the interest themselves. It was possible under these laws for a man to borrow, say, \$100,000 of State bonds, deposit them with the auditor, receive from him circulating notes, buy wheat with these notes, send the wheat to New York, and sell it for money with which to buy more bonds to deposit with the auditor, and so round and round. This was actually done in some cases, and it was considered an effective way of procuring an adequate supply of money.

BUYING BAD MONEY.

What would have happened if this supply had not existed? Why, of course, the wheat would have reached its market all the same, and would have been sold for good money, and this money would have gone to the wheat-producer, instead of the wild-cat and red-dog notes that the State auditor put his name and seal on, that were so handsome to look at, and that we were all so proud of in the beginning. I remember how independent we all felt when we had some of these triumphs of art in our pocket-books.

A process of essentially the same kind for furnishing a supply of money has been going on in this country during the past fourteen years. The Government has been issuing circulating notes of one kind and another on the basis of silver, and although some \$400,000,000 of these notes have been put in circulation, money is not a whit more plentiful than it was before. What would have happened if not a

single silver note had been issued, or a single ounce of silver bought? Why, the products of the country would have been sold all the same, and in the absence of silver and silver notes we should have had gold and gold notes. But, says some one, there is not gold enough in the world. How do you know that? You, or the likes of you, said the same thing before we resumed specie payments. You said the same thing before Italy resumed. And now Austria-Hungary is preparing to resume, and largely with gold drawn from us. Simultaneously we hear (and I believe it is true) that Russia has stored away \$500,000,000 of gold. I have not the smallest doubt that Austria-Hungary will get all the gold she needs for this purpose, and that there will still be some left. I know, too, that the ability of this country to draw gold from the world's stock exceeds that of Austria-Hungary and Russia combined, and that if we wanted more gold we could get it. The first step would be to repeal the present Silver Law. I doubt if anything else would be needed. Mr. Buckle, in his "History of Civilization," showed that the world's progress in the last hundred years had consisted chiefly in repealing bad laws. There is abundance of room left for that kind of progress in our own country.

THE "BANKING PRINCIPLE."

The State Bank of Indiana, the Louisiana and the Massachusetts banks were based upon what is known to economists as the "banking principle," the opposite, or counterpart, of which is called the "currency principle." The banking principle affirms that all trade is barter, that men would swap their goods and services directly, and without the use of money, if they could, but that since they cannot (owing to the complexity of human affairs), any machine which will do this swapping is a saving and a gain to mankind.

This is what a clearing-house does on a large scale, and a bank on a smaller one. A, B, and C, and the rest of the alphabet deposit the money they get for their various industries and services in a bank, and then draw their checks for

what they want to buy. This is the same as though they deposited their various goods in the bank and gave to each other orders for goods payable in kind at the bank. There would be practical difficulties in making the division at the bank and in handling the goods, but the essential nature of the operation is not changed by bringing in another set of hands (namely, merchants) to transfer the goods and make the divisions. The fact is, that all trade is at bottom barter and swapping.

Now the issue and circulation of bank notes is only an extension of the bank-check system. It carries swapping by machinery one step further. The checks of an individual often circulate through three or four hands before they reach the bank for payment. The bank note is the cashier's check on the bank. These cashiers' checks circulate more widely than private checks because the bank's credit is more widely known, and because they are of convenient form and size. They enable the community to make small exchanges, to do small swapping, without the use of real money. Since real money is capital, they economize the use of capital.

THE "CURRENCY PRINCIPLE."

The currency principle proceeds upon a theory somewhat different. It assumes that a certain amount of paper notes will be wanted by the public at all times, will always be passing from hand to hand, and will never be presented for redemption. This assumption is based upon experience, and is much the same as assuming that a certain number of hats or pairs of trousers will always be wanted. This amount the Government itself will furnish. In England the bank issues this amount of notes, but it accounts to the Government for the profit over and above expenses, and a fair compensation for its own trouble. When the Bank Act was passed, the amount of the fiduciary issues of notes was fixed at £14,000,000. Upon this the bank was to make an annual payment of £120,000, besides paying all the expenses of the note issue and managing the public debt. It was provided

also that on the discontinuance of the circulation of certain country banks then in existence the Bank of England should have the right to issue a corresponding amount of notes, paying a tax to the Government thereon, at the rate of two per cent. per annum. The net amount received by the Government from the bank last year was £162,716. The fiduciary issue is based on Government securities. If the community wants any more notes than the fiduciary issue (which is now about £15,500,000), it can have them by paying gold for them. But obviously this is the same as using the gold, since a note issued against five sovereigns is merely like a gold certificate of deposit issued by our Treasury. True, there is no external mark to distinguish this Bank of England note from any one of the £15,500,000 issued against securities, but it is a very different thing in fact. The Bank of England is a perfect representative of the currency principle, and the Bank of France is a perfect representative of the banking principle.

THE "TRUE PRINCIPLE."

The banking principle is the true one in theory. It is a labor-saving and capital-saving machine at the same time. It does for the lesser transactions of commerce what the bill of exchange and the clearing-house do for the greater ones, and in the same way substantially. It enables trade to be carried on to any extent within the limits of a single nation by a series of offsets. It is barter reduced to science. If there were no disturbing elements, it would gradually root out and supersede every other kind of apparatus for performing the exchanges of mankind. It would do this in the same way and for the same reason that a superior tool crowds out and supersedes an inferior one—as the friction match, for example, superseded the flint and tinder-box. But there are disturbing elements. Bad and dishonest management of banks may be minimized, but cannot be prevented altogether. The currency principle here has its *raison d'être*. It says that the first requisite of any bank-note system is the security of the noteholder, and that everything else should be subordinated

to that. I agree to that proposition. Any system which does not make the noteholders secure is condemned at the start. But we have seen that the issue of notes against deposited securities did not save the noteholders from loss before the war, while careful and intelligent systems of banking like those of Louisiana, Massachusetts, and the State banks of Indiana and Ohio did protect them fully. I consider note issuing against deposited securities erroneous in principle, because it uses up the bank's capital in procuring its notes, whereas, it ought to have this capital free at the outset for the discount of commercial paper.

Take an illustration. Suppose that a bank starts with \$100,000 of capital. Under the plan of deposited securities it must pay all this, and perhaps more, in order to get \$90,000 of notes to apply to the discount of commercial paper. The bank cannot know whether the parties whose paper is discounted will draw the money in the form of notes or will ask for drafts on some other city or will draw checks which will turn up at the clearing-house the next day. If the parties draw out the notes, these may come back as deposits the next day.

The notes are assets while the bank holds them, but they are liabilities when the public holds them. Each dollar has cost the bank \$1.10 and the notes will perform no function that the notes of the old State Bank of Indiana would not perform. Now, suppose that the noteholder could be made safe without the deposited security. Then the bank would have \$100,000 of free capital to start with, plus as many notes as the community would draw out and make use of. This amount of notes is all that it can put out, even when it buys them from the Government at \$1.10 each. Therefore the \$100,000 of free capital is clear gain to the banking business. But, you say, the bank has the interest on the deposited bonds. Yes, that is what it gets out of a permanent investment, but banks are, or ought to be, organized for discounting short-time commercial paper, and not for long-time loans. If long-time loans are wanted in the

banking business, which I respectfully deny, more money can be made by lending on mortgage than by lending to governments.

BANKING ON SECURITIES CANNOT LONG SURVIVE.

I have said that I think that the system of note-issuing on deposited securities is destined to perish. Not only is it erroneous in that it absorbs the bank's capital before its doors are opened for business, but the only securities fit to be used for this purpose are rapidly disappearing and will soon be gone. The note-issuing feature of the national-bank system is moribund already. But the banking feature will not die, even if note-issuing comes to an end. It is so interwoven with the commerce of the country that it will stand, and necessarily stand, for an indefinitely long period with or without note issues. The note circulation of the national banks reached its maximum of three hundred and thirty-six millions in December, 1872. At that time the number of banks was 1940 and their capital four hundred and eighty-two millions. In September, 1891, the circulation had fallen to one hundred and thirty-one millions, while the number of banks had risen to 3677 and the capital to six hundred and seventy-seven millions. This proves that the system is beneficial and is approved by business interests, altogether apart from the note-issuing feature. The reason why is not far to seek. The public have more confidence in the machinery of governmental oversight and enforcement of law, under the national system, than they have under State systems, and this they will continue to have even though some State systems are as good or better. They know that the national system is uniform. It operates in the same way in Washington City and Washington State and everywhere between. When you know this law and the decisions of the courts under it, you know all that is necessary. If you undertake to learn and keep track of the banking laws and decisions of forty-four States and four Territories, you will find your task a heavy one. There is now a movement on foot to secure uniformity of law in the States touching the marriage

relation, wills, conveyances of land, and some other things. As we actually have uniformity of law on the subject of banking, we had best keep it.

HOW TO PRESERVE THE NATIONAL SYSTEM.

Although note-issuing is not a necessary part of the business of banking, it is a vastly desirable part. As has been shown, it is a device for saving both labor and capital in effecting exchanges among men. Hence we may assume that it will sooner or later supplant the present costly method of supplying a currency by means of silver bullion. I think that the national bank note can be preserved and even improved, without bond security, by a slight change in the present law, viz.:

Out of the present tax on bank notes constitute a safety fund to be lodged in the treasury, the amount of it to be computed by actuaries, taking the national bank mortality of the past twenty-five years as a basis. After this sum is reached, let the tax go into the treasury of the United States, as it does now, as a part of the national revenue. Let the Government continue, as now, to be responsible for the notes, and let it retain, as now, a first lien on the assets of failed banks and on the liability of the shareholders.

I am assuming, of course, that *all* the provisions of the existing law except bond security are retained and enforced, so that the ratio of bank mortality shall not increase. The report of the comptroller of the currency for 1891 shows that there have been 164 national bank failures since the system first went into operation. The total amount of circulating notes of these banks outstanding at the time of the failure was \$16,209,160. It would take no very long time to collect this whole sum out of the tax on national bank notes, but of course, only a small part of this would be wanted at any one time. This sixteen millions of failed bank notes was all that the whirligig of time brought in from April 14, 1865, to October 14, 1891, twenty-six and a half years. Probably a safety fund, beginning with \$5,000,000,

and replenished from time to time out of the proceeds of the tax, would be ample. But suppose it were not. We would still have a first lien on the assets. The assets of these 164 failed banks realized \$44,606,561, or nearly three times the amount of their circulating notes. I think it would be entirely safe for the Government to continue its responsibility for the notes on these conditions. We must bear in mind that almost all the banks are sound, and honestly managed, the proportion of bad ones to good ones being as 164 to 3677, or less than five per cent.

BANK FAILURES WOULD NOT INCREASE.

Would the privilege of note-issuing without bond security tend to an increase of bank failures? Would rascals take advantage of the new facilities for note-issuing in order to swindle the public? This is an important question. We have been so accustomed to bond security for bank-notes that we have lost sight of some other requirements of the law, of equal or greater importance. One of these is that every bank must have a paid-up capital and that every shareholder shall be liable for as much more as he has paid in. Moreover, if any bank's capital is impaired at any time, it must be made good. The bona-fide existence of the original capital and the restoration of it, if impaired, are secured by examinations by public officers. Moreover, no bank can issue notes in excess of ninety per cent. of its paid-in capital, while the larger ones are restricted to 80, 75, and 60 per cent. according to their size. Moreover, every bank must have a sum equal to five per cent. of its outstanding notes on deposit at Washington for current redemption purposes. All these provisions are in the way of protection to the note-holder, and they are solid provisions too.

We can now answer the question whether the suggested change in the national banking act will serve as an incentive to deliberate swindling, and thus increase the amount of bank mortality over and above the experience of the past twenty-six years, which we have seen is less than five per

cent. I think that five per cent. of failed bank notes can always be provided for out of the proposed safety fund, without trenching upon the assets of the bank or the added liability of the shareholders, although I would retain the first lien on the same which the Government now holds for this purpose. I do not believe that people are deliberately going to risk 100 per cent. of their own capital in order to have the chance of cheating to the extent of ninety per cent. of it, and running the risk of the State prison besides. This answers the question whether the suggested change in the law will serve as an incentive to deliberate swindling, or not. I think that the law will be enforced as well and as thoroughly in the future as it has been in the past, probably more so, since each bank failure teaches the comptroller's office some lesson. We ought not to stand shivering over the approaching wreck of the national bank-note system. Those who think that it ought to be preserved should be willing to try some experiments. This world is not made up principally of cheats and rascals. The preponderance of honest and capable men in the banking business, as we can prove, is more than ninety-five per cent. But if worst comes to worst—if bank mortality should increase under the proposed change—Congress is always at hand to make needed amendments to the law. Wisdom will not die with us.

THE "SAFETY-FUND PRINCIPLE."

The safety-fund principle is no new one in our history. It was adopted in New York as long ago as 1829. Each bank was required by law to pay to the State Treasurer one-half per cent. on its capital stock until three per cent. is accumulated. By some mistake or accident in framing the law, the safety fund was made applicable to the payment of all the debts of failed banks instead of the circulating notes only. The preliminary discussion shows that the intention was to protect noteholders only. The contributions to the fund began in 1831. In 1835 the number of safety-fund banks was seventy-six, with a circulation of \$14,000,000. The amount in the safety

fund was \$400,000. During the first twelve years of its operation no safety-fund bank failed, and the fund was not drawn upon, for although the panic of 1837 had supervened, the suspension of specie payments was legalized for one year, at the end of which time all the banks resumed. In 1841 six safety-fund banks failed, there being ninety contributing banks at that time and \$841,000 in the fund. Then the mistake of making the fund applicable to all the liabilities of the failed banks, instead of confining it to circulating notes, was discovered. Litigation and injunctions, delay and consequent depreciation of notes followed, which we have not time to recapitulate. They have been carefully compiled by the late John Jay Knox.* The upshot is that if the safety fund had been applicable only to the circulating notes, it would have redeemed every failed bank note during the twenty-five years that the system lasted. Millard Fillmore, who was comptroller of the State in 1848, gives, in his report of that year, the exact figures up to that time. He shows that the contributions to the safety fund had been \$1,876,063 and the notes of the failed banks \$1,548,558, leaving a surplus of \$327,505 as against circulation. *This is perhaps the most pregnant fact in the history of banking in this country.* The safety-fund system and the bond-security system ran side by side with each other in New York for nearly a quarter of a century, with comparative results decidedly in favor of the former. Comptroller Flagg, in his report for the year 1846, says: "In the security of the public under each system, our experience in the failure of ten safety-fund banks, and about three times as many of free banks, proves that the contributions of one-half of one per cent. annually on the capital of the safety-fund banks have thus far afforded as much protection as the deposit with the comptroller by the free banks of a sum nominally equal to all the bills issued by them. It will be seen by reference to a statement under the head of insolvent free banks, that the loss to billholders, on the supposition that all the securities had been stocks of this State, and bonds and mortgages, would

*See Rhodes' *Journal of Banking*, April, 1892.

have been over sixteen per cent., while the actual loss has been nearly thirty-nine per cent." The constitution of New York, adopted in 1846, makes noteholders preferred creditors of all failed banks. It may be remarked here that this preference of the claims of noteholders upon the assets of failed banks has become an axiom in banking law and science, and is no longer called in question.

The late Mr. Knox, whose authority is far greater than mine on any banking question, argued in his report as comptroller of the currency for 1882, against the safety-fund plan and all other plans for keeping the national bank-note system alive without bond security. I mention this lest I may seem to have overlooked it. Mr. Knox changed his mind on this subject completely a few years before his death, as he told me and others.

It is proper, nevertheless, to notice one of the arguments in his 1882 report, viz.: That although the assets of failed banks when taken together are ample to reimburse the Government for the redemption of failed bank notes, yet some bank failures are worse than others, and some of them would leave hardly anything in the way of assets. Of course, we could not make good the deficit of one bank with the excess of others. The State of New York once had a similar difficulty to deal with. When she discovered that the blundering legislation of 1829 had left a shortage in the safety fund, she made it good by an issue of her own bonds and reimbursed herself out of the safety fund when subsequently replenished. The National Government could do the same, and having the taxing power always in hand would not need to wait long for reimbursement. For Mr. Knox's later views, see an officially published "Interview between the Committee on Banking and Currency of the House of Representatives and John Jay Knox, on the 16th day of January, 1890," page 14.

The comptroller of the currency in his last report recommends an extension of the present bonded debt of the United States for twenty, thirty and forty years beyond its present term at two per cent. interest for the purpose of continuing

the national bank notes. There are serious objections to this plan from political and economical points of view, but an equally serious one from the banking point of view is that it is inadequate. If carried out, it would leave the banks just where they are now. There is no profit in banking on a two per cent. bond. The present marasmus would be continued indefinitely. We hope for something better. We ought to strive for a system that will be really elastic and responsive to the wants of trade. The present system is as stiff as a ram's horn and almost as crooked. One popular argument brought against the national banking system is that in order to get \$90 of circulation we must first withdraw \$100 from the community. This is a valid criticism as regards the localities not provided, or inadequately provided, with banks.

An objection may be raised in reference to the source of the proposed safety fund. This source is the present tax on national bank notes. It may be said, on the one hand, that this is a part of the national revenue and that it cannot be spared, and on the other hand that if it can be spared it ought to be repealed. In answer to the latter objection I venture to say that this tax never will be repealed until some way is found to carry on government without revenue. Moreover it ought not to be repealed. As regards the Government's need of this particular item of revenue: The tax for the fiscal year 1891 amounted to \$1,216,104—a very small amount in the sum total of Government receipts, but I agree that at the present time the treasury needs to look after its sixpences. This tax is one per cent. per annum on circulation. If the requirement of low-interest bond security were relaxed, the tax might be doubled without harm or injustice. We have seen that the Government of England exacts two per cent. interest or tax from the bank on all fiduciary note issues over and above the original £14,000,000. But if such a tax should be really oppressive under the new conditions, the excess would be remitted as soon as the safety fund had reached the required limit.

I should consider it indispensable that the Government should continue to be, as it is now, responsible for the note issues. I think that any government, national or State, should be responsible for everything that it allows to circulate as money. A right step in this regard was taken in the Silver-Purchase Act of July 14, 1890, which makes the Government responsible for the redemption of the silver notes in gold. True, this act is only declaratory of the policy of the United States, but it is mandatory upon any honest secretary of the treasury, and I venture to say will never be departed from.

BANK-NOTE INFLATION.

The question may be asked, what is to be the limit to national bank notes issued in this way? At present the limit is fixed by the deposited securities. What guarantee shall we have against currency inflation, if currency can be had on such cheap terms? The answer is that the law now limits the circulation of banks to ninety per cent. of the paid-in capital of the smaller ones, and to eighty, seventy-five and sixty per cent. of the larger ones. We do not propose to alter that, although we have seen that the State Bank of Indiana was allowed to issue notes to the amount of double its capital, and the banks of Louisiana could issue without any limit at all, and that these institutions were almost the only ones in the country that did not suspend in the panic of 1857. There is hardly time to go into an argument to show that there can be no such thing, under modern conditions, as bank-note inflation on a gold basis. I might quote many authorities on this point, but I will refer you to the latest treatise on banking, and one of the best I am acquainted with—that of Professor Dunbar. This author shows in simple language, and with illustrations that anybody can understand, that a bank is powerless either to put out notes or to keep them out. That power resides exclusively in the hands of those who hold checks on the bank and have the right to draw money from it. What is called bank-note inflation is a consequence and not a cause of general inflation. You all

remember, doubtless, the commercial crisis of 1873, and if you do, you remember that the requirement of bond security for bank notes did not prevent it from being one of the most disastrous panics in our history.

STATE BANK NOTES.

If the plan here sketched, or something like it, should be adopted, there would be no need of State bank notes, since every facility that a State could grant for the issue of a sound and safe currency would be granted by the National Government. I take it that nobody is in favor of an unsound or unsafe currency. I feel sure that any political party which fathers an unsound or unsafe currency will be severely dealt with at the polls. I know that there is a deep-seated prejudice against national banks, but that prejudice grows out of a belief that the banks draw interest on the bonds and on the notes at the same time, and thus make a double profit. It cannot exist if there are no bonds there, but if, in place thereof, each bank is required to contribute to a safety fund. Probably such a measure would put an end to silver purchases, since there could no longer be any apprehension or pretence of a shortage of currency. The danger of free coinage of silver has, in my judgment, passed away, notwithstanding some mutterings on the horizon, leaving nothing but the Purchase Act as a disturbing element.

In conclusion, gentlemen, I remark that *you have got to do something*. Time is running on. The national-bank system is running out, and nothing is taking its place. Every instructed person knows that governments have no facilities for furnishing money to their people, and ought never to do such a thing, and never can do so without producing mischief. All the financial heresies of the past quarter of a century have had their origin in the Legal Tender Act of 1862. This has been the parent of an unnumbered progeny of wrong ideas. To give a history of all the bad monetary conceits that have been enacted into law, or are waiting to

be enacted, or have been killed or temporarily stunned during the past quarter of a century, would take more time than we have at our disposal. The largest part of my work as a journalist during that period has consisted in clubbing financial heresies which have had their root in the Legal Tender Act, and would otherwise never have existed.

HORACE WHITE.

New York City.

AMERICAN BANKING
AND
THE MONEY SUPPLY OF THE FUTURE.

It seems to me that the subject of banking, and its kindred topic, the currency, is often treated by those who are presumed to know most about both, in a manner altogether too complicated, too confusing and therefore discouraging to the reader or listener. The necessity for this I never could fathom, for each is quite as simple in its nature as the problems children solve at thirteen, and far less difficult to comprehend than the questions often put to Civil Service candidates. If the air of mystery and the element of obscurity indulged in so often is supposed to carry with it the semi-sanctity of unusual profundity which the teacher or speaker possesses, I think the effect is miscalculated, and that this obtuse, elaborate and muddy way of furnishing information is rather likely to cause the suspicion that the learned authority is rather deficient, than that he is overly equipped in the science and practice of that which he essays to enlighten others upon.

It will make itself clear from start to finish that the writer of this small contribution to the common stock of familiar information prefers the simple and direct rather than the complex and roundabout way of presenting his views upon an everyday and naturally simple and easily understood question.

FOUR PERIODS IN AMERICAN BANKING HISTORY.

Banking in the United States may be said to have gone through four epochs, beginning earlier than the Union itself, and ending with the adoption of a more complete and efficient system than our present has come to be.

Prior to the year 1781 we can scarcely say we had much, if any, banking as we now understand it, for with the Bank of North America, founded December 31, 1781, and

still in existence at Philadelphia, the idea of banks uniting the functions of circulation, deposit, exchange and discount may fairly be said to begin. The earliest so-called banks were in reality not banks but a series of issues of colonial notes by the separate Colonies. The history of the disasters accompanying and following such issues would of itself make a fair sized-pamphlet.

OUR FIRST BANKING PERIOD.

The first epoch then may start with the conception of the Colman Bank, which really never got farther than that, and which carries us back to the year 1715. The Land Bank, organized in 1739, had back of it no capital, but did business upon mortgages given upon their estates by the stockholders. Its failure need hardly be told and the suffering it entailed upon the stockholders and the public was a matter of notoriety down to the time of the Revolution. The Specie Bank, while its name was a good one, proved, largely because it never had but a trifle of specie, a failure, and wound up its affairs so quickly that it has not left much of an impression upon the early financial history of the colonies.

OUR SECOND BANKING PERIOD.

The second epoch begins then with the Bank of North America and properly ends, it seems to me, in 1838, when the State of New York established the idea, for the first time in any systematic way in the history of the world, of securing circulating notes by the deposit of collateral. The Massachusetts Bank was the next great bank, historically speaking, and it was chartered in 1784, and following this a bank was chartered in New York and another in Maryland. In 1791 the first bank of the United States was chartered by Congress and its capital of \$10,000,000 was partly made up of cash and partly, in fact, mainly, of bonds of the United States. It is likely that by the year 1812 there were as many as 125 banks in the United States in more or less active operation, though no perfectly accurate statement in this matter can be now made. The cardinal weakness in the banking of this

second epoch was the lack of security for the noteholder and the total want of ordinary business prudence in maintaining proper specie reserves for the redemption of circulating notes, so that the general suspension of specie payments in 1814, which, however, did not include the New England banks, was in no way surprising. The charter of the first bank of the United States expired in 1811. In 1816 the second bank of the United States was chartered, and it began business with the opening of the year 1817, and had a capital of \$35,000,000, the Government taking \$7,000,000 of its stock. On starting it had less than \$2,000,000 of specie, the balance consisting of bonds, stocks and the notes given to it by its stockholders in payment for their subscriptions to its capital. This bank had a checkered existence, was part of the time insolvent, but ran along until its charter expired in 1836, in a kind of haphazard, reckless manner, and those who read its history now can scarcely decide whether its capital was oftener employed in business or in politics. It never actually failed, as it was merged into The Bank of the United States, chartered by the State of Pennsylvania. This last bank failed most disastrously; and when it suspended in October, 1839, a large share of its stock was found to be owned in England, while its management was wholly American, and savored more of speculation than business. When it finally and forever closed its doors in February, 1841, it left behind it an odor of rascality and incompetence which lasted for a generation.

The history of banking in the several States during this second epoch reads like a romance, and no portion of the political history of the country is more interesting, as it covers the entire period of the struggle between the Bank of the United States and the Whigs on one side and President Jackson and the Democratic party on the other. During this epoch the gold dollar of the United States was established while Mr. Jackson was in office, at twenty-three and one-fifth grains (23.20 grains) of fine gold. The great Democratic battle for honest money was won during this same period, and it is back to the history of this great fight we turn when as Democrats

we contend for an honest dollar. It is well to remember that since 1873 nothing in the United States can be called an honest dollar which is not promptly convertible into a gold dollar of 23.20 fine or its equivalent.

THE THIRD PERIOD IN AMERICAN BANKING.

The third epoch in American banking begins with the passage by the New York Legislature, in 1838, of a bill requiring the securing of bank notes by the deposit of stock. This marks the greatest change in our banking history. It revolutionized the theory and practice of banking, not only in America, but in England, for in 1844 the English Bank Act practically established the same idea, and to this day Great Britain has shown no disposition to depart from it. From 1838 on, New York has had an admirable banking system, and while her banks have been carried down into temporary suspension by the recklessness of methods West and South, noteholders have in the end realized full value for notes regularly issued in New York after the year 1838. If other States had followed the example of the State of New York the wild and furious periods of speculation which culminated in the suspension of 1857, and which we so quickly overcame, would have been avoided and our financial history in the fifties would not be clouded with the "wild cat," "red-dog," "stump-tail," "coon-box" bills which few remember much about in any accurate way, but which exist in a kind of indefinite cobweb of recollections only to produce frequent spasms of financial nightmare during political campaigns.

THE FOURTH CHAPTER IN AMERICAN BANKING.

The national banking system which begins the fourth epoch in our banking history began in 1863, but properly speaking, it should date from 1865, when the ten per cent. tax upon State bank circulation forced all banks of issue into the national system. Just here we must not fail to remember that at this time (1865) there was practically no such thing as "wild-cat" money, and the State bank notes and State

banks themselves were so popular and had such a strong hold upon the business public, and were in such high favor with the people, that it required the most enormous rate of taxation ever known in history and the most arbitrary commercial law ever passed by Congress to force the notes of State banks out of circulation. In this connection, too, it is a most significant fact that out of the great sum of \$150,000,000 of State bank notes in circulation, practically, all of it was redeemed in full and without entailing loss upon the holders. A still more striking commentary upon the excellence of State bank-note circulation is the fact that for years after the passage of the National Bank Act the notes of a number of State banks were worth far more than those of any national bank. You could buy with one dollar of State bank money as high as two dollars, and even two dollars and eighty cents in national bank notes in 1864. In fact, from 1861 on, until they entirely disappeared from circulation, the notes of a number of State banks were always very much more valuable than the legal-tender notes of the United States. This is especially worthy of mention when the ignorant, the hasty and the prejudiced cry out against all bank notes issued under State authority.

The national banking system had little that was novel in it, practically nothing which was not fully known to every one familiar with the banking systems of New York, Ohio and Indiana. It consisted of the issue of notes by banks incorporated by the United States, all of which bore the guaranty of the United States, government bonds being lodged with the United States as collateral security. This system of banking has been eminently satisfactory and extremely useful to the public, and was of great advantage in raising and maintaining the public credit between 1863 and 1866. The chances are that if Government bonds were in abundant supply now that the most trifling changes in the system would be needed to render it continuously satisfactory to the nation. As it is, however, the rapidly decreasing supply of United States bonds, their high price and the low interest

return they give the banks, all point to the extinction of bank-note circulation in 1907 and its gradual and yet rapid reduction meanwhile.

We are, therefore, close to the end of the fourth epoch in American banking, and may properly consider what should be and what is likely to be the fifth.

OUR BANKING FUTURE.

In entering upon this subject it is necessary, I think, to lay down some general principles controlling the currency, and the relation of our National Government to it, before presenting a plan which will provide for the establishment of these principles, and upon them erect a banking system which will enable us to forecast what the money supply of the future is likely to be.

I accept it as a fixed principle that we can only have at any one time a single standard of value, and need not stop to argue the matter with such an audience as this is addressed to. We must choose between gold, the standard of enlightened nations like England, Germany and France, or, silver the standard of Mexico, South America, China, Africa, and, for the present, India. I assume that we shall decide permanently in favor of the Democratic gold dollar 23.20 grains fine as the ultimate standard of the United States. We are justified in this by the action of Congress last winter on the free coinage of silver and its present attitude in connection with the crazy speculation in bar silver which has gone on since 1878 under the Bland bill of 1878 and the Act of 1890, so often called the Sherman bill, but unjustly so, as it never at any time reflected the views of Mr. Sherman except as a compromise measure. Considering it settled then that gold and gold alone is to be the permanent, as it has been since 1873, the sole legal standard of value in the United States, it follows that all other forms of money, whether of paper or coin, must always be kept at par with gold and be promptly redeemable in it.

The next principle to be recognized is that the issuing of promises to pay by the United States, intended to circulate

as money, is improper, never should have been adopted, has cost us, directly and indirectly, half as much as the war of the rebellion, and is to-day the cause of our having in the treasury over 416,000,000 ounces of silver, which has cost the nation over \$80,000,000 more than its present market value and probably over \$200,000,000 more than we shall ever realize for it.

Just how the present legal tender paper circulation of the United States shall be recalled and paid off and the Government got back to where its financial functions will be limited to the collection of money by taxation and its disbursement for legitimate national expenses, this is not the place to speculate upon, nor this the time to make recommendations. Suffice it to say, the Government's sole relation to business, and its only connection with the money market and the supply of currency, should consist in controlling wisely and honestly the coinage, and its functions here should be limited to the easy task of coining, without limit, gold, which is our standard of value, and in limiting the coinage of silver to the sum which experience shows we can use, and which will not vary much from one standard silver dollar for each soul in the country.

The great curse to business, as well as the principal drawback to enterprise, during the last thirty years—except, of course, the war from 1861 to 1865, and our ignorant and selfish tariff system—has been the control of Congress over the volume and the value of the money supply of the country.

A COMMONPLACE BUT MOST EFFICIENT BANKING SYSTEM.

Accepting the few cardinal, strikingly simple and manifestly wholesome principles just stated, the bill quoted below, and known as "H. R. No. 9770," presents a solution for the financial questions which will then remain to be settled, and if once made the law of the United States will require little change or alteration afterward. Under the operation of a law like this business would be independent of Congress, and the supply of money in the United States would at all times

be ample and also automatic, and it would therefore be marked by an elasticity and flexibility in volume which it has been a stranger to ever since the Government began to interfere with, and control, our money market, as it did on the outbreaking of the Civil War in 1861.

Little explanation of the provisions in the bill will be needed by even the least professional or practical reader, and it is submitted without further comment, except that which follows it and which is confined to answering the objections made to it in some quarters. It may be proper to remark that, with the Government confining itself to its legitimate duties, it is quite clear that under this law the currency of the United States would consist of gold, and of national and State bank notes, all promptly redeemable in gold, and of silver, nickel and copper coins for making change.

52D CONGRESS,
2D SESSION.

H. R. 9770.

IN THE HOUSE OF REPRESENTATIVES.

DECEMBER 7, 1892.

Referred to the Committee on Banking and Currency and ordered to be printed.

A BILL

To provide for the issue of circulating notes of National and State banking associations upon securities other than United States bonds, for the taxation of the circulating notes of National banks, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the United States shall not hereafter guarantee the payment of circulating notes issued by any bank, banking association, or private banker.

SEC. 2. That there shall be no limit to the amount of circulating notes which any national banking association may issue, except that such notes shall at no time exceed ninety per centum of the par value of the bonds deposited to secure the same by such association.

SEC. 3. That every national banking association, after the same has been fully organized, may at all times have on hand, in the custody of the Comptroller of the Currency, such amount of its circulating notes ready for issue upon the deposit of the securities, as hereinafter

provided, with the Treasurer of the United States as shall not at any time exceed the par value of its paid-up capital stock.

SEC. 4. That State banks, State banking associations, and bankers expressly authorized under State statute to issue circulating notes shall pay no Federal or United States tax upon such notes: *Provided*, That all such notes are secured in the same manner and to the same extent as the notes of national banks, that is, by bonds of the precise character described in this bill, which bonds must be duly deposited with a properly designated State officer in the State in which the issuing bank, banking association, or banker is domiciled; and every national banking association shall pay a tax upon the circulating notes issued by it and in circulation at the rate of one-fifth of one per centum per annum upon the average amount of the same, not exceeding ninety per centum of the capital stock actually paid up in cash, one per centum per annum upon the average amount of such notes in excess of ninety per centum and not exceeding one hundred and eighty per centum of the said capital, and ten per centum upon the average amount of such notes in excess of one hundred and eighty per centum of said capital. Such taxes shall be payable semi-annually, and shall be collected by the internal revenue collectors of the United States.

SEC. 5. That in addition to the United States bonds now required by law to be deposited with the Treasurer of the United States to secure the circulating notes of national banking associations, the Comptroller of the Currency is hereby authorized and required to accept registered bonds issued by any railroad corporation or city in the United States, and deposit the same with the Treasurer of the United States in behalf of any such association as security for its circulating notes, subject to the following restrictions:

First.—The principal and interest of all such bonds shall, in expressed terms, be payable in gold coin of the United States.

Second.—All such bonds must have been continuously listed upon some regular stock exchange, located in a city of the United States having a population of not less than five hundred thousand, for at least five years.

Third.—No bond shall be accepted upon which payment of interest has at any time been in default, or which at any time within three years prior to the date of its offer for acceptance has sold publicly upon any stock exchange where it was listed for less than one hundred and five cents on the dollar of its face value.

Fourth.—No bond shall be accepted if the total tax levy of the city issuing it exceeds two per centum per annum.

Fifth.—No railroad bond, not regularly secured by mortgage upon the roadbed and track, shall be accepted.

Sixth.—No association shall be permitted to have more than twenty per centum of its bonds on deposit of the issue of any one railroad corporation or city.

Seventh.—Whenever any class of bonds on deposit has been publicly sold below par for a period of thirty days upon any stock exchange where listed, the Comptroller shall require a bond to be substituted which will in all respects meet the requirements of this act.

Eighth.—Whenever any railroad corporation which was paying dividends upon its stock when its bonds were accepted by the Comptroller ceases to pay dividends, the substitution of other and proper bonds shall be required.

SEC. 6. That the Comptroller, with the consent of the Secretary of the Treasury, shall have the right to reject any class of bonds he sees fit, and to require proper substitution for any already on deposit considered undesirable.

SEC. 7. That no association shall hereafter be required to keep on deposit with the Treasurer of the United States any further security or fund for the payment of its circulating notes than those provided for and required by this act.

SEC. 8. That any president, vice-president, manager, secretary, treasurer, or other officer of any interstate railroad who shall knowingly issue, or permit to be issued, any false statement of the earnings, expenses, or condition of the road he is officially connected with, shall be subject to indictment and trial in any court of the United States, and if found guilty shall be imprisoned at hard labor for not less than ten years nor more than twenty years, and be subject to a fine in addition of not more than one hundred thousand dollars.

SEC. 9. That for the further protection of the holders of circulating notes, the United States shall have a first lien upon the assets of each national banking association for the payment of its notes, in addition to the bonds deposited with the Treasurer of the United States as security.

SEC. 10. That a fund of one million dollars shall be created out of the taxes collected under this act from national banking associations and shall be maintained from the same source, and if the proceeds of the bonds deposited to secure the circulating notes of an association and the first lien upon its assets together are insufficient to redeem the outstanding notes of the association, then the deficiency shall be made good from this fund.

SEC. 11. That the notes of no national banking association shall be a legal tender in payment of any claim due to the United States, and when a national banking association has been placed in the hands of a receiver, its circulating notes shall cease to be received in payment of any obligation due and payable to the United States.

SEC. 12. That all parts of existing laws which are in conflict or inconsistent with the provisions of this act shall be, and hereby are, repealed

OBJECTIONS CONSIDERED.

The first objection made to the bill is that the notes would be open to the cry of "wild-cat," due to insufficient security. This falls to the ground when it is found that no notes of any bank in the world, except possibly those of our national banks (whose present security must disappear with the payment of the debt of the United States), are as amply secured. The notes of the Canadian banks, so justly esteemed, have no such security behind them; those of the Bank of France have no special security; those of the Reichsbank, of Germany, and the other thirteen banks of issue have none until their volume exceeds 385,000,000 marks (\$91,630,000).

The security provided by this bill for all notes, State and national, would be on an average (measured at all times by gold) twenty per cent. greater than that pledged for the notes of the Bank of England. The market value in gold of the security proposed (and which would be behind the notes of even the most remote or inaccessible bank) would be about double the average gold value of the security which was behind our national bank notes—in the shape of United States bonds—from 1863 to 1865. It hardly seems necessary to say more in this connection except to remark that you will notice it does away with the improper use of the Government guaranty upon circulating notes, which is as useless on a properly secured bill as it has always been improper. One thing more, however. If the notes of all banks in the United States had been so secured ever since railroading and modern business methods made it possible, no holder of a note (State or national) in all this period would ever have lost a farthing! If this had been the law in 1860 it is hardly necessary to say the war might have been carried on upon a gold basis, not a dollar of legal-tender paper need have been issued and the direct cost of the struggle would have been cut almost in two; and if this had been the

law we would have avoided that constant interference of the Congress of the United States with the volume of the currency, which has kept the business of the country at sixes and sevens most of the time since 1866. Again, if this had been the law the United States would not be the unhappy owner of silver costing over \$429,000,000, for all of which it owes its notes, all practically payable in gold, while not except by a miracle could it get \$200,000,000 for this load of pig metal. We should have been saved a loss of say \$225,000,000 yet to be made up by taxing the people, for all of this would have been avoided had this simple, safe, equitable and efficient bill been the law of the United States.

The next criticism is that it would provoke counterfeiting and give us too great a variety of paper money. To this I answer that counterfeiting in 1865 had dwindled to a point where it was an unimportant feature, notwithstanding the great variety of bills in circulation. Since 1865 we have wonderfully improved our bank note engraving and we are so superior in this direction to Europe, where they suffer little from counterfeiting, even with their poorly executed notes, that we need borrow no trouble on this score.

Again, learning from the practice of the United States, it is likely that each State would have one form of note and every State and all of its banks would be constantly on the lookout for, and quick in the punishment of, counterfeiting. While the law provides, as it should, and as any fair, just measure must, for State bank circulation, in the end it is probable that our paper circulation under this law would be mainly, perhaps exclusively, that of national banks, because with the rate of tax placed on circulation by the bill, capital would find it more profitable to organize under the national than under any State bank system; for few, if any, States could meet the expenses attending a local system without taxing the circulation of their own banks more than the United States need that of the national banks. Add the undoubted fact that national banks would enjoy a higher general credit than State banks, and we see that the passage

of this law (after the United States had retired its paper promises to pay) would result in the simplification of our paper currency and still further remove it from the dangers of counterfeiting. And, speaking of counterfeiting, the real, present and future great danger of counterfeiting is found in our silver dollar, for any fairly expert mechanic can make a silver dollar in all respects, in weight, fineness and appearance, equal to the United States standard dollar for not over sixty-six cents to-day. If we go on cheapening the cost of turning out silver he will be able to make a dollar very much cheaper. To-day it is probable that the actual cost of a spurious silver dollar to some of the Creede, Colorado miners, would not be over eighteen to twenty cents, while some Colorado miners could produce silver dollars as heavy, of as pure material, and quite as perfect otherwise, as the United States standard dollar, at not over eleven cents each.

The charge made that notes issued under this bill would prove objectionable on account of inconvenience in their not being current everywhere, or that domestic exchange would rise in consequence, becomes so very baseless when we remember that to have even local or, if you will, a purely home circulation would require them to be kept there at par with other money, that I dismiss it rather than take your time to answer it.

A PREDICTION.

Finally, I make the prediction, with confidence, that within fifteen years after this bill becomes the law of the United States its leading features will be adopted by a number of other nations, and that inside of a half century it will practically be the banking law of the commercial world, and that long before that, if we continue to keep gold as our sole standard of value, the world will discard the clumsy pound sterling as its measure of value in international trade, and that the 23.20 grains fine gold dollar of the United States of America will be the basis upon which the trade of the world at large will be conducted.

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I crave for the evident lack of care in the preparation of this article the indulgence of those who read it, and enter the plea of justification, inasmuch as it was written when crowded day and night with public duties which I could not put aside.

MICHAEL D. HARTER.

House of Representatives.

STATE AND NATIONAL BANK CIRCULATION.

Discussing the subject of State and national bank circulation, I said in my recent report. . . . The Constitution of the United States prohibits the States from coining money or making anything except gold and silver legal tender. State-bank bills could not become a legal tender. Neither are national-bank bills. State-bank bills when issued add just so much to the liabilities of the bank. They would circulate freely in times of prosperity and confidence. In times of monetary stringency and general distrust they would return to the banks for redemption. They would have to be redeemed in legal-tender money provided by Congress. Congress must, under the Constitution, provide all the money that possesses a full debt-paying power. By every consideration of sound business principles it should provide all the money that the country requires. No public interest can be served by dividing this function with the forty-four States. Every period of financial depression in the past resulted in the suspension of specie payments, more or less general, by the banks; that is, resulted in the inability of the banks to redeem their notes. The same conditions would produce similar results in the future. If State-bank notes are allowed to circulate, their acceptance is not voluntary; it becomes a business necessity. Many mine-owners, manufacturers, and large employers of labor practiced paying their help in store orders, in order to control their trade and make the extra profit. Surely, under the law, the acceptance or rejection of such orders was purely voluntary, and yet their acceptance for fear of losing their employment was general.

So great did this abuse become that many States have enacted laws compelling corporations to pay their laborers, at regular intervals, in money. The wealthy class could provide themselves with the means of discriminating against

the notes of weak banks, and if they found themselves possessed of any would proceed to work them off upon their less fortunate neighbors. This is the record of the past. It would be the experience of the future. To the average laboring man a bank-note reporter and detector would be as inexplicable as the binomial theorem. When a bank suspends, the fact that the note is secured and will be eventually paid is poor consolation to the laborer who needs his money for his daily use. The note of a failed national bank is as good as that of any bank in the system. The restoration of State-bank circulation portends disaster to that class of our citizens who most need and have most right to ask protection from the Government. State-bank circulation loses its money power in a crisis. It is a source of weakness and adds to the danger. Instead of paying debts it comes forward itself to be paid.

Ninety per cent of all business transactions are represented by credits and, says Edward Atkinson, in the "Engineering Magazine," "The Government does not attempt to exercise any supervision in respect to these drafts, checks and bills of exchange" which represent such credits. He then says a bank note "is a check drawn or made by the officers of the bank upon the funds of the bank," and argues that it should be allowed to circulate without tax or interference by the Government, precisely the same as checks. This is specious reasoning. No man accepts a check without inquiry as to the credit of the drawer and drawee, and if the same is not honored he may cause it to be protested and recover from the party from whom it was received.

It is not practicable to require an endorsement upon State-bank bills, with a view to charging an endorser, and with one such endorsement they would cease to circulate. A thousand dollar payment may represent twenty different banks. If bank bills were so treated they would be no better than checks. They would not answer Mr. Atkinson's wants. Checks must be paid. He wants State-bank bills as *money* not to be paid in money. They are "not capable of being

forced upon an unwilling person," says he. That statement is theoretically true, but practically it is wholly false. A banker, or large merchant or manufacturer, may be in a position, equipped with skilled men or expert information, to exercise discrimination between the strong and weak banks. But what can the artisan, the day laborer, the miner, or the farmer know of such a matter? From the nature of their calling they can exercise no discrimination. They know, and they can only know, that the Government allows such bills to circulate, in form and semblance of money, and they have the right to hold the Government responsible that it be worth 100 cents on the dollar, whether it comes from New York or New Mexico.

If allowed to circulate, their acceptance would follow as a necessity of the situation by that class who have most need of protection.

I am frequently asked by business men to explain the different kinds of paper money in use, and usually answer by reading to them from the bills in their own pocket. The information they ask is printed upon the money they carry. That indicates how little attention people give to the money they receive and shows that its soundness and freedom from counterfeit is such that there is little need to give attention to anything but the numerals.

There is nothing more fallacious than the idea that we can have good local currency—good, for instance, in Kansas but not good in Pennsylvania. It might pass at par in Kansas and at a discount in Pennsylvania; still its purchasing power would be equal in both places. The discount in Pennsylvania would be equaled by a corresponding increase of the cost price in Kansas. That is an inevitable law attendant upon depreciated currency. A good draft upon New York is worth more than a good draft upon St. Paul, because it will be accepted over a wider area and by a larger number of people. A Bank of England note is worth more than any other paper money, because it is known and will be accepted in all commercial nations. Some one may say

a draft upon St. Paul is worth just as much to an inhabitant of St. Paul as a draft on New York. If St. Paul had no business with the outside world that would be true. But the same commercial laws that give added value to New York exchange would apply to citizens of St. Paul as well as other cities.

The wider the area in which money will be accepted as good, the greater the value of such money.

If the forty-four States are to share with Congress the issuing of paper money then will we have a chain of sovereignties, each with varying laws and varying systems. At present, in thirteen States the issuing of circulating notes is prohibited. In fifteen States there is no provision of law authorizing State banks to issue circulating notes. In the remaining sixteen, circulation is provided for with widely varying provisions as to amount and security.

The profit upon bank circulation depends upon the length of time it remains outstanding. State banks, in order to get their circulation into general use and keep it outstanding, would seek to arrange with city correspondents for its redemption. The competition for bank accounts is so intense that all our cities would be drawn into the meshes and whatever might be weak or bad in this State-bank circulation, would not be confined to the place of issue, but extend to the whole country. Currency cannot be localized by States.

Mr. White's proposition is that "The national banking system, note issues and all, can be and ought to be preserved after the bonds have been paid off—that no bond security need be substituted in place of those now used—and when this change is made there will be no need of State-bank issues, since all that the States can safely do, the general Government can do better."

I cordially endorse the proposition as a whole, but think circulation should be secured. The payment and extinction of the national debt in the immediate future is an erroneous assumption. If national banks and national-bank circulation exist until that period arrives we shall leave them as a

heritage to our children. United States bonds are the choicest, safest and least profitable investment at the present time. When they cease to exist, of necessity, other securities, suitable for the purpose, will exist. Those who insist that circulation needs no security, other than to be a preferred claim against the assets of a bank, strengthened by stockholders' liability and safety-fund provisions, usually assume that the function of Government ends with securing and protecting noteholders. The Government goes further and by restrictive legislation and supervision seeks to protect all creditors, and incidentally stockholders, though stockholders stand in the position of guaranteeing creditors.

The business of banking has undergone many changes in the last thirty years. The purely commercial functions, as formulated in text books and laid down by the courts, as the business of a bank, fail fully to describe the banking of to-day. Banks of discount and deposit have become large owners of securities. The banks in the twenty-three reserve cities owned on December 9, 1892, \$40,474,850 in United States bonds. This ownership was largely compulsory. But on the same date they owned \$64,695,256.96 in other securities the ownership of which was wholly voluntary, and the total holdings of all the banks, on that date, of securities other than United States bonds, were \$153,648,180.71.

Since banks voluntarily own securities it would not be an onerous provision to require them to own proper securities as a basis for circulating notes.

No holder of a national bank-note has ever lost anything by reason of a bank failure. How would it have been had not the statute required bonds as security for such circulation? During the thirty years' existence of the national banking system 181 banks have failed. Of the 181 failed banks, thirty-nine have paid creditors in full, principal and interest; six principal and part of the interest, and thirteen principal only. The affairs of 110 banks have been finally closed, leaving seventy in process of settlement, of which sixteen are virtually closed, with the exception of pending litigation,

fifty-four receiverships being in active operation. One bank was permitted to resume business.

The total amount so far paid to creditors of insolvent national banks has been \$48,052,938 upon proved claims amounting to \$70,830,366.

Of course there are some remaining claims to be proven and a large amount of assets to be distributed in dividends. In thirty-three of these banks, whose affairs have been finally closed, the total amount of dividends paid was less than the amount of circulating notes outstanding, and but for the bonds required as security, noteholders might not have been paid in full.

In the case of nineteen banks, whose date of failure ranges from April 22, 1884, down to July 22, 1892, and whose affairs are not finally closed, the noteholders would not have received payment at the present time.

The total circulation of these fifty-three banks was \$3,310,529, total dividends \$2,095,678.

List of Insolvent National Banks, dividends paid and circulation issued, of associations whose dividends were less in amount than the circulation outstanding.

TITLE.	Date Failed.	Dividends Paid.	Circulation Issued.
*Merchants' Nat'l Bank, Washington, D. C.	1866	\$165,769	\$180,000
*First National Bank, Medina, N. Y. . . .	1867	\$32,305	\$40,000
*Tennessee Nat'l Bank, Memphis, Tenn. .	"	65,335	90,000
*National Unadilla Bank, Unadilla, N. Y.	"	58,661	100,000
*Croton National Bank, New York, N. Y.	"	143,307	180,000
Total	4	\$299,608	\$410,000
*National Bank of Vicksburg, Miss. . . .	1868	\$16,654	\$25,500
*First National Bank, Rockford, Ill. . . .	1869	\$29,277	\$45,000
*First National Bank, Fort Smith, Ark. .	1872	\$15,142	\$45,000

* Finally closed.

TITLE.	Date Failed.	Dividends Paid.	Circulation Issued.
*First National Bank, Petersburg, Va. . .	1873	\$125,667	\$179,200
*Merchants' Nat'l Bank, Petersburg, Va. .	"	259,487	360,000
*First National Bank, Topeka, Kans. . .	"	31,668	90,000
Total.	3	\$416,822	\$629,200
*First National Bank of Utah, Salt Lake City, Utah	1874	\$19,002	\$118,191
*Cook County National Bank, Chicago, Ill.	1875	\$228,412	\$285,100
*Fourth National Bank, Chicago, Ill. . .	1876	\$18,258	\$85,700
*First National Bank, Bedford, Iowa . .	"	12,624	27,000
*First National Bank, Osceola, Iowa . .	"	34,536	45,000
*Watkins National Bank, Watkins, N. Y.	"	60,647	67,500
*First National Bank, Greenfield, Ohio .	"	9,456	29,662
Total.	5	\$135,521	\$254,862
*First National Bank, Ashland, Pa. . . .	1878	\$33,105	\$75,554
*First National Bank, Waynesburg, Pa. .	"	21,710	69,345
*First National Bank, Dallas Tex. . . .	"	29,377	29,800
*People's National Bank, Helena, Mont.	"	66,810	89,300
*Merchants' Nat'l Bank, Fort Scott, Kans.	"	16,670	35,328
*Farmers' National Bank, Platte City, Mo.	"	11,803	27,000
Total.	6	\$179,475	\$326,327
*National Bank, Poultney, Vt.	1879	\$88,176	\$90,000
*First National Bank, Monticello, Ind. . .	"	20,998	27,000
Total.	2	\$109,174	\$117,000
*City National Bank, Lawrenceburg, Ind.	1884	\$26,809	\$77,000
First National Bank, St. Albans, Vt. . .	"	72,967	89,980
*Hot Springs Nat'l Bank, Hot Springs, Ark.	"	39,812	40,850
*First National Bank, Jamestown, N. Dak.	"	8,807	18,650
Total.	4	\$148,395	\$226,480
*First National Bank, Angelica, N. Y. . .	1886	\$66,394	\$89,000
*Palatka National Bank, Palatka, Fla. . .	1887	\$9,492	\$19,210
First National Bank, Sheffield, Ala. . . .	1889	\$11,901	\$22,500
First National Bank, Alma, Kans.	1890	.. . .	\$16,875
First National Bank, Mead Center, Kans.	"	\$5,553	\$10,750
Total.	2	\$5,553	\$27,625

* Finally closed.

TITLE.	Date Failed.	Dividends Paid.	Circulation Issued.
Second National Bank, McPherson, Kans.	1891	\$7,338	\$11,250
*Asbury Park Nat'l Bank, Asbury Park, N.J.	"	8,753	20,700
Ninth National Bank, Dallas, Tex. . . .	"	14,147	45,000
First National Bank, Red Cloud, Neb. .	"	5,607	16,225
Central Nebraska Nat'l Bank, Broken Bow, Neb. . . . .	"	. . . .	13,500
Florence National Bank, Florence, Ala. .	"	. . . .	12,900
First National Bank, Kansas City, Kans. .	"	25,269	33,750
Rio Grande National Bank, Laredo, Tex. .	"	. . . .	22,500
First National Bank, Clearfield, Pa. . . .	"	72,518	85,340
†Farley National Bank, Montgomery, Ala.	"	. . . .	22,500
First National Bank, Coldwater, Kans. .	"	8,482	11,200
Total.	11	\$142,114	\$294,865
Huron National Bank, Huron, S. Dak. .	1892	. . . .	\$18,000
First National Bank, Downs, Kans. . . .	"	\$8,745	10,750
*First National Bank, Muncy, Pa.	"	80,636	94,899
Bell County National Bank, Temple, Tex.	"	7,592	11,250
National Bank of Guthrie, Okla. . . . .	"	. . . .	21,800
Cherryvale Nat'l Bank, Cherryvale, Kans.	"	. . . .	11,250
First National Bank, Rockwall, Tex. . .	"	. . . .	26,720
Total.	7	\$96,973	\$194,669
Grand Total	53	2,095,678	3,310,529

A bank note that is liable to depend for its redemption upon the slow liquidation of a failed bank certainly lacks convertibility.

Safety fund provisions are, I think, more onerous to banks than the enforced ownership of securities. To require choice securities as a basis for circulating notes, compels the conservative investment of a bank's funds, *pro tanto*, protects the noteholders, imposes no hardship upon banks (the present hardship is not in owning the high-priced bonds, but in the high taxes imposed) and is, in my judgment, free from objection, wise, conservative, and justified by experience.

A. B. HEPBURN.

Treasury Department, Washington.

* Finally closed. † Resumed.

BANKING SYSTEM—OLD AND NEW.

I have examined the paper of the distinguished gentleman from New York (Mr. Horace White), and if he suggests anything that ought to be in a banking law, which is not in a bill I had the honor to introduce in the House of Representatives, numbered H. R. 10,094, I did not observe it; and if the bill contains anything which he suggests ought not to be in a banking law, I did not notice it. I shall, therefore, use that bill as a basis of my discussion of the subject allotted to me.

A banking system that will not run smoothly under the most adverse circumstances is a banking system not worth considering. A banking system that does not provide for specie payments in normal times and for the suspension of specie payments—a banking system that will not run smoothly under the most intense business commotion and civil strife, is not worthy of attention.

In any other government than ours, it is the minister of finance and men skilled in finance who guide the monetary affairs of the country; in our country they are guided and directed by the whole body of legislators, each one of whom, whatever may be his previous training, is very sure that he knows all there is to know on all questions of finance—and his confidence is sometimes in proportion to his ignorance. No man has a right to present a bill to Congress when he has not a fair chance of success in passing it. In presenting a bill that provides for a national banking system, as in all other legislation, he must present the best bill he can devise that has a reasonable chance of being passed. If the banking system and the banks of the country can legitimately and economically work under it and preserve the national system, we still must take it because of the good there is in the system, even if the bill is in some points objectionable.

Success is a duty in legislation for the single legislator or the legislative body, as much as it is our duty as bankers or merchants.

The Walker bill now before Congress is not such a bill as I would draw had I such authority as is conferred upon the men who manage the finances of Great Britain or France or Germany. There is not enough financial wisdom available and focused, in the every-day Congress of the United States, to devise a banking system such as this country ought to have. It is only an exceptional Congress that will give us a good banking law. We must wait for a national system till that Congress comes, and the system will come, when it comes at all, from the men in a Congress who are sufficiently adroit and conciliatory and popular to have men of both parties assist them in passing the measure. I have very strong hopes that the leading Democrats of the House in the Fifty-third Congress can be persuaded that it is for the political advantage of their party to take up the bill which I have presented and adopt it. It will not be passed purely as a matter of statesmanship, free from all party advantage and political considerations, by either the Democrats or the Republicans. Whenever we get a proper national banking system in this country, it will be through some men in the minority of sufficient skill and popularity on their own side to have it support them, and sufficient ability to draw a bill and persuasive power to convince the majority that it is for its political advantage to have it adopted.

The mechanism of banking, as an occupation, is a great deal easier to learn than keeping a grocery store or running a farm; but banking, in its administration, in the great concerns with which it has to deal, in the important function which it performs as a part of the commercial system of the country, the great courage that has often to be exercised and the great risks taken, demands the highest type of ability, of courage, and of genius.

I say this, because it might be thought that, as the scheme is simple, it is of little consequence. But the utter

folly is apparent of talking about forty-four independent systems of banking, and of each State developing and maintaining in each successive legislature enough financial wisdom to devise and maintain a sound and economical banking system. We know a bank cannot exist alone, any more than we can sever a finger and have it throb and live and perform its functions alone. Every local bank in this country is a part of "the bank" of this country, and "the bank" is the aggregate of all our banks. It is the same in every other country, and "the bank" of this country is just as truly such as though we had a central United States bank, and every other bank was a branch of this. A bank cannot exist as a unit, as a shoe factory, or a cotton factory, or a woollen factory exists, complete in itself. A bank is as much a part of the current circulation of the country as the bills it issues, as much as the blood in the body is a part of and necessary to life—an inseparable part of the commercial transactions of the country, and no one of them can be insulated. It is a physical impossibility to have State banking systems. It is also a physical impossibility for a national government to issue the paper money and maintain the specie payments of such paper money in a country. It never has been done in any country. It never has been done for a day in this country. It so appears only because the banks have stood at the elbow of the Secretary of the Treasury of the United States, and have conducted the finances of the country through him. The Secretary of the Treasury is powerless without the co-operation of the banks. The hoard of gold that now exists or has existed in the United States treasury has, from the beginning, been sheltered and protected and kept there by the banks, not by any power of the United States Government. If the banks, or any ten of the strongest banks in this country, had said: "We will have that gold, and we will break up this system of specie redemption," it would have disappeared any time in the last thirty years. It is not a system of

which the country ought to be proud. The very existence of the sub-treasury is abnormal, and a threat, as every banker knows, to the existence of every bank and of the whole banking system of the country. It must be trenched upon to wring the money out of it, and practically destroy it at every crisis. It is a struggle for existence between the sub-treasury and the business of the country. Its very existence is in violation of the specific law of the United States that forbids banks and individuals to do what the United States Government is constantly doing, locking up the money of the people, locking up the gold and locking up the currency.* We have, in many respects, the most ridiculous and extravagant financial system in the world, while in many other respects it is the best—of which I have not space to speak further.

The banking institution of a country must be an "institution," a thing whole and complete in itself, with powers of self-defence, in order to have the necessary powers of existence. Now, the banks are absolutely defenceless, and have been during the whole existence of our monetary system. Why? Because they have no means of keeping the measure of value, the gold, in their vaults, or in this country. We are absolutely helpless to keep the gold in this country. If we had a proper banking system, we could cause bonds to be shipped, or securities; as they do in England, rather than to ship gold, simply by raising the rate of discount or lowering it. This is the only conceivable defence that any country has in keeping its coin supply necessary to its banking system from being dangerously trenched upon by any nation that chooses to take it. And yet we stand absolutely helpless in this respect, because shippers of gold can and always do draw their gold not from banks that could defend it, but from the United States treasury, which is defenceless.

[* For a careful account of the results of the existing system see Mr. David Kinley's paper on "The Influence on Business of the Independent Treasury" in the ANNALS for September, 1892, also issued as No. 66 of the Publications of the American Academy of Political and Social Science.—EDITORS.]

We must have a banking system that is whole and complete in itself, absolutely dissevered from the Government—one that the Government has no control over and can put no hand upon, excepting in police supervision. We cannot get it by direct legislation. It must nestle in a bill so obscurely and so quietly, and yet so potently, that it can "grow," as Topsy did, with the approval of the people and for their benefit; and I think it is in the bill referred to.

Coin is the very life-blood of banking, and if we cannot protect our coin, our banking system is in peril every moment. The only possible way of protecting it is through the banks.

The Walker bill provides for the issue of two classes of currency notes. It provides for their certain payment in case of the failure of any bank. There is not the least difficulty in making the circulating notes of a bank secure as to their final redemption, in many ways. That is incidental to but no part of banking. The thing that makes bank bills good money is the securing and maintaining them at their nominal value in coin value by their "current redemption," their constant revivification, the constant touching of paper money with the coin dollar, so that it may ever be the equivalent of coin in the commercial transactions of the country. That is the difficulty in keeping paper money "good," and it is the only difficulty. The various schemes for issuing bank bills (currency notes), providing only for "final redemption," are mere chaff.

The Walker bill provides that the reserves of a bank shall be in coin or in the notes bought of the Government for coin, which latter bills are not to be less than half the circulating notes that the bank issues. That is to say, the bank is to have its reserve in coin, not less than half in gold coin, or gold coin certificates. The point of counting the coin certificates as coin is simply that the Government has the vaults in which to keep the coin, and can keep it cheaper than the banks can store it, the Government simply issuing coin certificates as custodian of the coin deposited.

The way we have been banking for thirty years is this: We have had notes issued to banks on bonds. The interest and premium on those bonds has, for the last fifteen years, just about equaled what the banks have lost by not being able to avail themselves of earnings on bank reserves as in Europe. Many bankers have failed to see the waste on their reserves. They have lost sight of the fact that their reserve does not earn anything, in the fact that they have had an equivalent in the interest on the bonds they have deposited with the Government to secure the bills issued to them. The Walker bill provides that banks shall have the right (the Government printing them as now) to issue as many dollars in currency as they hold dollars in reserve, and that they shall hold an additional reserve for the currency they issue.

First—This reserve operates in two ways. It is a reserve in coin, as all the banks in Europe hold their reserve in coin, and secondly, banks issue bills to the amount of this coin reserve, as European banks do. The reserve, every dollar of it, is as safe and effective as a reserve, and still is earning just as much as any part of the capital, while it is still held as a reserve. Coin is no more likely to be demanded upon the currency bills which banks issue than it is upon the check that is presented, or any other form of bank liabilities, and is just as effective as though the bills were not issued. The only point in requiring that the bills shall not exceed the reserve is to have a check upon the issue of bills, in order that they never shall exceed their proper limit.

Second—The notes which banks are, by the bill, required to buy of the Government, paying for them in lawful money, either gold or silver, or silver certificates, or in the present greenback, a sum equal to what is issued on the reserve, really costs the bank nothing. It is simply exchanging legal tender money for money that is not "legal tender," though commercially it is its equal, being just as useful to the community in doing its work effectually. The bank of England issues one-third of its currency notes or bills in the same manner. They are not issued on a coin reserve.

This bill provides that half instead of one-third shall be issued by the United States Government, and both classes of these bills shall be the same to the bank and must have the same "current redemption." But if the bank desires to go out of business, or surrender any of these bills, or fails, then the Government is to redeem these bills in coin of equal intrinsic value, of the nominal value of the money which was deposited or paid by the bank for these bills, and the bank itself is to redeem the bills that are issued by the comptroller to the bank and by the bank to the amount of its reserve, the comptroller taking possession of all the assets of the bank and either pledging them or selling them for a sufficient sum to redeem the bills issued by it that are not bought of the Government, and then turning over the balance of the funds encumbered by the loan, to the bank, for it to distribute among its creditors.

No one can tell how many dollars there ought to be per capita, either in coin or currency. We ought to have just that number of dollars per capita in paper money that the people insist upon carrying in their pockets, and that is a dead investment. It is a dead deposit. It lies there, about the same in amount, year in and year out, but there is a profit in issuing it. If I were drawing a banking scheme, with no regard to the opinion of others, I would allow the banks to issue two dollars for one, not buying one-half of the Government; but we never can get the people to adopt that. Another thing, the existing greenback is a menace to the banking system of this country just so long as it exists, and the bill I have drawn provides that, of the money paid to the Government for currency, ninety per cent shall be used to redeem, cancel and destroy the greenbacks of 1865, and that ten per cent of it shall be held as a redemption fund which the Government will hold, at its expense, and not at the expense of the bank, for the "current redemption" of all the bills of the bank. The bank first issues itself just as many paper dollars as it keeps in its reserve. Then it buys of the Government an

equal sum, and ninety per cent of what it pays to the Government is used for redeeming and canceling the old 1865 greenbacks until they are gone, and ten per cent of it is set aside by the Government for the redemption fund the banks now have to keep with the Government to redeem bills, at the expense of the bank.

A banking business is the buying, selling, borrowing and loaning of property, not paper. It is titles to property which banks actually deal in, and of course banks own the property for the time being. When banks discount notes, they hold property in exchange, and to the amount of the note discounted. In its last analysis this is not a process dealing with paper, but banks are the owners of the property in the hands of the merchants all through the country. That is the fundamental fact, and it is necessary that the people should know it. They would then give up the idea that we can make just as much good paper money as we are pleased to issue, which is wholly fallacious. This property in the hands of merchants, owned by banks, neither increases nor diminishes in value while it is owned by them. Banks do these things for a fixed compensation called interest or discount; that is to say, banks temporarily own property in the hands of merchants, but suffer no loss on it, and make no gain. Banks do it for a certain sum agreed upon, while merchants are taking all the risks of the losses and making all the gains.

Third—It is the duty of banks to be at all the expense, trouble and risk of maintaining an unvarying measure or standard of value by which all the wealth or property of the country is measured for exchange, and the United States Government ought to be immediately relieved from that great tax upon the people. That is to say, banks ought to be at the expense and trouble and risk of holding the gold or silver that is the measure of value, and not the United States Government—the people. As a compensation for that service, it ought to be earning banks an income all the time. Banks issue a form of title to the property of the bank,

entitled bank notes or "paper money" for the convenience of persons whose transactions are too small for them to use drafts or checks, but they are precisely the same as drafts or checks to those who use them. There is nothing distinguishable between a bank note and a draft or check, except that the bank note is transferred in payment without endorsement. It is a title to the property of the bank, as a check or draft is a title to what the maker has on deposit in the bank. That is all the difference there is between a bank note and a check, draft or anything else, either in custom, in law or in equity.

Fourth—The performance of these functions constitutes the bank a medium of exchange of all titles to all the property exchanged, excepting that exchanged for coin or in barter. This makes banks inter-dependent, and each a branch of the completed whole—"The bank" leaving no room for State banks.

The volume of currency or the volume of coin needed in a country can be determined only by trial. England has determined by trial that the visible coin she needs is only about \$100,000,000, while we have \$330,000,000 in visible gold, besides all our silver coin!

The coin we need is what the people carry in their pockets and what we need for the reserve in our banks. Now, with reference to the issue of money up to limit of the reserve, it has been repeatedly proved, as Mr. White shows, that a safety fund makes a note as safe as bonds make it, as to its sure final redemption, if the bank fails. All our business is conducted on the doctrine of chances. We run all our railroad trains on the doctrine of chances. And this bill is drawn on human lines and provides for a tax on the currency notes issued by the banks up to their reserves of one-twentieth of one per cent, to be held in the United States treasury as a guarantee fund for the redemption of the bills issued by the banks up to the limit of their reserve, provided the Comptroller should find that the property available, of any bankrupt bank, is not sufficient to redeem the bills it has outstanding. This

tax each year will make a fund four times as large as the people would have lost on the average each year on bank bills in the last thirty years, had there been no bonds held to secure them.

The present national system is necessarily doomed to disappear. Some other scheme must be devised, or we can have no national currency. The system developed in the bill H. R. 10,094 is fully a hundred per cent better than the present, because bonds have nothing to do with money. They are entirely extraneous to it, as much as the color of the hair of the president of the bank. They necessarily have nothing to do with banking, and never should have, because it confuses both bankers and the plain people, and the people have very naturally and justifiably gotten it into their heads that the banks are getting interest on their bonds and then returning the bonds to the custody of the Government, and so getting interest on the bills issued on them, the bank thus getting double interest on its bonds. Congress never will continue that system.

Coin in this country is earning nothing—absolutely nothing. It has not earned a farthing for thirty years, under the action of the United States banking law. At four per cent on \$1,000,000,000 silver and gold coin, there is \$40,000,000 absolute waste annually. We might continue issuing notes on United States bonds, did we have them, which might be the equivalent of earning on this coin to a certain extent; but that is not banking, much less independent, and therefore safe, banking. We have now, I believe, only \$150,000,000 issued on United States bonds; of course we are losing interest on the balance of \$850,000,000. Every dollar of our visible coin ought to be earning just as much as any other part of the property of banks.

Section 2 of the bill provides for the incorporation of the bank practically as now. The powers given the Comptroller in the bill are considerably increased. Had we not had the experience for thirty years of the tremendous powers that the Comptroller already has conferred upon him, I might

have hesitated. But there never has been a lisp of criticism of the Comptroller's exercising his great powers when he ought not to do so, though he has been severely criticised time and time again for not exercising them.

The first is to issue to and compel banks under certain circumstances to take notes of the Government and pay the Government for them. That is a provision that never would be resorted to except in the case of a great exigency. For instance, during the Civil War, banks in certain sections, in order to embarrass the Government, might have surrendered, or attempted to surrender, or refused to take its currency notes. The next is that the Comptroller's consent must be obtained to the banks surrendering its notes, or surrendering its charter, or lessening its capital, and all of those powers he now has. The third gives him power to close up a bank if he has reason to believe that the bank's currency notes issued up to its reserve may be defaulted.

The bill also provides for a board of experts—advisors to the Comptroller. That provision, for a board of experts as contemplated in the bill, if it did nothing else, would strongly tend to a solution of our coinage and banking difficulties even under our present system.

"That there is hereby constituted and appointed a board of advisors of experts to the comptroller of the currency upon changes desirable in and methods of executing existing law concerning banking, consisting of the comptroller of the currency, who shall be a member *ex officio* and president, and the president of the chief redemption bank in each of the five chief redemption cities in the country, or such substitute for any one of the officers named as he shall from time to time appoint, which board of advisors shall meet once a year, or oftener if the comptroller of the currency or a majority of the board so determines, at such a time and place as the comptroller shall appoint. The decision of the secretary of the treasury, from time to time, as to what person is entitled to act under this section, shall be final."

In this section is provided a board of directors of the whole national banking system, of men who, from their position, naturally should constitute that board. By their decisions, only as recommendations, it would not be ten

years before our whole banking system would have all the advantages of a great central national bank with every other bank a branch, without its disadvantages.

The bill also provides for the gradual, natural and complete separation of the banking system of the country from the Government, by a provision in the bill, giving the Secretary of the Treasury the right to carry this out, at his option. The bill provides that whenever the Secretary of the Treasury chooses to do so, he may deposit the money and devolve the duties of current redemption on a redemption bank, or on the redemption banks. If this bill becomes a law, within ten years, without the people knowing that the slightest change has been made, and to their great advantage and approval, our Government would cease to have anything to do with holding coin or redeeming currency, or have any responsibility for banks other than police supervision and as a business establishment. The Government of the United States cannot safely touch the coin or the banking in the country, except as it is itself essentially a bank, and subject to all the conditions of banking and of banks. Banking is something that either must be done altogether or let alone altogether.

The substance of the bank reserves are to be gold, silver and the government notes bought under Section 4. No less than half must be in gold, no more than half may be in silver and a tax must be paid on that part in bills issued under Section 4. If the silver or silver certificates exceed the gold or gold certificates, they are counted as government notes issued under Section 4, which are the government notes bought of the Government and for which the Government is finally responsible. If they have the reserve in the government notes issued under Section 4, they are to be taxed two per cent on that part of their reserve held in such notes while they hold them. This is so arranged that in case of the suspension of specie payments, or of a bank getting into difficulties and wanting to bridge them over, then, if it will pay two percent, it can use this further kind of reserve; otherwise

not. This is a very conservative, and a very necessary provision.

The bill permits the bank to issue notes to the amount of the reserve "held" during any consecutive six months. The reserve "held" is now about \$500,000,000, in round numbers, and the reserve required in cash, "cash reserve," is now about \$300,000,000. The Comptroller of the Currency can allow a bank to issue notes to the amount that it "held" in any six months in the previous year, and he can reduce it any time he chooses to the amount "held" in any other six months of the previous year. With the board of directors, for which the bill provides, watching and recommending, it goes to the securing of the elasticity of the currency, which can be utilized to any amount, varying from \$125,000,000 to \$200,000,000 as the people desire to move their crops. If this bill were law, banks would run their reserves up when the people did not need so much currency, and would run their reserves down when the people most needed funds, and we should get an elasticity of \$200,000,000 without the intervention of any bond securities. Mr. Windom's scheme was to have a United States two per cent bond which anybody could buy at any time, and which the Government would buy back at any time and which could be deposited with the Government at any time to again receive currency upon. That scheme could not be gotten through Congress, however good it is, and as I have said, we have no right to spend our time in attempting something that is thoroughly impracticable. The people of the country are determined not to have a public debt. They will not carry a bond for the use of banks, and Mr. Windom's plan amounted to the Government taking the surplus that the banks wanted to get rid of at any time and paying to the banks two per cent interest for it. The people never will submit to it, and ought not to do so. It would be taxing them this two per cent and giving it to the banks. However good it might make the currency system, it never will be adopted. Bonds in banking must go.

When I say that fifty per cent of the currency must be bought of the Government, it amounts to this, that the banks will make that much less money than they would if they issued these notes, and that they will have to charge that much higher interest than they would if they could issue that much more currency and the people could get the advantage of it in less interest on the money they borrowed. But we cannot make the people think so, and therefore, while it is not ideal banking, while, as a financier, I would write a different bill from this, for a bill to get through Congress and be approved of by plain people, this is the best thing I can devise.

If this bill goes into operation, we shall have, finally, \$600,000,000 government notes instead of the \$324,000,000, as we now have, but they will not be legal tender; they will be bank bills, so far as the banks are concerned. They will have every advantage of greenbacks, so far as the greenbacker and the people are concerned, in what they want to reach. That is to say, the Government issues them to the banks and the banks are responsible for their "current redemption." No one is responsible for the "current redemption" of the present legal tender, and for that reason the present legal tender is a menace to our whole banking system. The new government note would be a legitimate part of it and save the people interest on \$600,000,000 of debt.

The bill further provides that the reserve of a bank must average what the law calls for, taking any month as a whole, but it can run just as low as the bank chooses on one day and just as high on any other day. A reserve that never can be touched is no reserve at all. It might just as well be anchored in the sea. A reserve is for use, and a bank ought to be permitted to use its reserve in certain contingencies.

There is nothing in the bill that is not as old as the Bank of England. There is no new thing in it, excepting new arrangements of proved expedients to bring it into a simple and practical working. The Bank of England's charter

has its double-headed government, but it is worked as one system and there is everything in this bank bill of of any value that there is in that.

I repeat, with reference to the two kinds of currency bills, that banks will simply lose what, in my judgment, they ought to make on what they take from the Government, and the Government will get it. I do not think that is the way it ought to be, but it is the way we will have to take it if a bill is ever enacted. If we have a banking system that is national, the people must feel that the money they carry in their pockets day by day (which is half the total volume and generally more—it generally amounts to five-eighths or three-fourths) the Governments get the profit on, and not the banks. That is the only point in that provision.

Under the proposed bill this country could protect and keep its gold and defy Europe to bring us to a "silver measure of value," by preventing its shipment when the interests of the country demanded a stay in its shipment, as England protects her store of gold. Under our present banking system, with the Government responsible for maintaining gold payments and the banks at the mercy of the Government, and the United States treasury dependent on the banks for successful administration, it is impossible for the country to have any "measure of value metal" in legitimate touch with any one of our multitudinous forms of paper money. It is a physical impossibility for the Government to "maintain specie payment" for a day without the assistance of the banks.

Furthermore, it costs the people—the Government—a vast sum of money to maintain specie payments, even with the assistance of the banks as it is now doing, and the soundness of both the United States treasury and the banks is also in daily peril.

Under the bill proposed, the maintaining of specie payments or keeping the "measure of value metal" in touch with our paper money would not cost the Government or the banks one cent, and it would put in our hands precisely the

same means of defending our gold supply from shipment that England has successfully used for eighty years without a single failure. Only by enacting this bill, or some similar bill, can the vexatious silver coinage question be settled satisfactorily to the people, and all our paper money be alike.

This bill gives, in as high a degree as is possible in any law, the four things essential in "paper money:" First, safety; second, convertibility—current redemption; third, elasticity; fourth, uniformity, as the present bank charters expire.

J. H. WALKER.

House of Representatives.

THE BASIS OF SECURITY
FOR
NATIONAL BANK NOTES.

The problem of how to provide a safe, uniform and elastic paper currency is the prominent financial question of the day. The business of banking has, in this country and under our legislation, been for so many years managed by institutions having charters from State or Federal governments, that even in the minds of thoughtful men some confusion has arisen as to the functions of a bank. The need which first created the banks, or called into existence bankers as a prominent class, was the kind of business which is now done by banks of discount and deposit.

"A banking business," says one of the thoughtful men now writing and speaking upon financial topics, "is the buying, selling and loaning of property, not paper." We have added to this the original and true function of a bank, the additional function of issuing its promissory notes which pass current from hand to hand and, while not actually money, are practically considered and treated as money, and furnish a large part of that circulating medium with which the transactions of individuals are settled. This feature of the banking business has become, not the most important, but the most widely discussed and dwelt upon, and has absorbed public attention until now, when the currency question is becoming the most prominent of our public questions, public attention is almost solely drawn to the function of a bank as one of issue, and in talking of banks and banking in our legislative halls it is the only one that attracts attention.

Before attempting at all to outline a method by which a banking currency can be established and satisfactorily maintained, a few preliminary thoughts may properly be set down as guides in determining the safety and soundness of any proposed plan for securing banking circulation.

A bank of discount and deposit attracts to itself business by the credit which it has from its paid-up capital, and from the confidence of the community in the integrity and ability of its managing officers. The individuals who deposit with such a bank do so with the understanding that the funds that they deposit will be honestly and intelligently loaned to such an extent as experience demonstrates is safe, and that a sufficient reserve of such deposits will be at all times kept, so that the easily ascertained average of the drawings of the deposits upon the bank will be immediately paid. Against losses occasioned by mismanagement or errors in judgment or possible speculation, the depositor properly relies upon the credit of the bank resulting from its paid-up capital. The depositors in a bank of this character comprehend that the aggregate of their deposits is much larger in amount than the capital stock of the bank, and is secured by the capacity and fairness of the management of the bank, and that its capital is only the guarantee fund put up by the stockholders of the bank to induce credit, and to secure against losses for which the officers of the bank may be not at all blameworthy. This class of creditors are voluntary creditors, and avail themselves of the convenience of the bank upon the contract requiring of the bank, as is well understood, not that it shall keep the particular moneys they deposit or an equivalent amount of money on hand, but only such amount as will meet the average drawings, a percentage which is readily ascertained by brief experience.

When such a bank takes upon itself the further function of a bank of issue, it assumes liabilities to another and larger class of creditors, and practically, in many instances, to an entirely involuntary class of creditors. For while there is no legal compulsion upon any man to accept a bank note in payment of what is due him, or for property with which he parts at the time of payment, still in any business community the man who declines to receive the circulating notes of a solvent bank will very soon find himself isolated

and his business opportunities limited, if not entirely destroyed. Practically it is that large class in the community who literally earn their bread in the sweat of their brow, and whose daily labor must meet their daily want, who are universally subject to such compulsion.

All civilized nations have assumed to regulate in one way or another the issuing of obligations intended to circulate as money, and have permitted such issue only upon terms and conditions intended to give security to the large class of involuntary creditors of the bank, who by their necessities and education are at once unable to refuse to receive the currency issued by the bank, and unfit to determine its value. This class of creditors practically constitute the general public, and this sort of legislation is intended for the protection of that public. Without stopping to inquire as to the natural source of authority for the enactment of such laws it is sufficient to take notice of their universality and of the fact that all bank note issues purport to be made by and under the sovereign authority of the State.

The original capital of the bank as subscribed and paid in constitutes the basis of credit with both classes of its creditors, the depositors and the noteholders, and the issue of bank notes under any system which has proven at all successful has been limited by the amount of the capital, sometimes to a greater and sometimes to a lesser percentage of it. The notes being payable on presentation and circulating freely among the people as money, and performing its function, have uniformly been recognized as a paramount obligation.

It has also been deemed essential both to the safety of the notes and to the accomplishment of the purposes for which they are issued that in some definite way the bank should secure by a deposit placed beyond its own control the payment of its notes. This result has been reached by the requirement for the deposit in the hands of the government itself, or the keeping under governmental supervision of gold or silver or securities in amounts sufficient to meet and to pay

off these obligations, irrespective of the general funds of the bank, and beyond the reach of any calamity that may destroy its general solvency.

A further safeguard has been thrown around these notes by requiring repeated investigations of the condition of the bank by disinterested public officials, and by the publication of detailed statements of its condition. None of these things are required of the mere banker doing a private business as a bank of discount and deposit, but all of them are deemed requisite in the case of bank corporations existing under governmental authority, and doing business as banks of issue. The purpose is first to render the notes secure, and second, to so completely satisfy the community with the security of those notes as to make their free circulation possible.

The difficulty in framing a law which shall secure the circulation of a bank is in so adjusting it that the notes shall be secure to the holder, and their issue profitable to the bank. If the State should seize upon fifty per cent of the capital of the bank at its start and return the same or less amount of notes to the bank for circulation it is obvious that no possible profit could arise to the bank, and that it would be taking all the risk attendant upon the issue of circulation, and all the expense of handling and renewing it without any compensation, and that it might much more profitably loan its original funds in whatever form they were. Such a result would prevent the bank from taking out circulation. It is the approximation to such result which has caused the retirement of a large portion of national bank currency by the banks within the last ten years. Upon the other hand the delivery to the bank by the State of circulating medium in excess of its capital or without security purchased from such capital, and set apart for the protection of the notes, would leave the notes themselves with no fair basis of credit. The natural result would come, as it has come many times under various forms of "wild-cat" banking, and be the entire loss to the noteholders of the property for which they took the unsecured notes. Of necessity, therefore, and not

from any desire to favor the banks, the security for bank circulation has been, under the most successful systems in this country, the use of a certain portion of the original capital of the bank for the purchase of approved securities, bearing interest, and the deposit of them with some officer of the government, the government itself assuming the attitude of trustee for the bank and for the noteholder and holding the securities as protection to the noteholder until the notes are redeemed and then restoring them to the bank. This is the theory upon which the national banking system was based, and it has afforded, as all admit, a marvelously safe and uniform currency of equal value at the bank's counter or in the remotest corner of the land.

The rapid extinguishment of the public debt of the United States, and the high market price of its bonds, has brought about a condition where the taking of circulation by the national banks in many cases has ceased to be profitable, and in all cases affords but slight profit.

While we have not reached we have so nearly approached to the condition of things where the government simply takes from the bank a portion of its capital and returns to it a smaller amount of circulating notes that the extension of the system has been impeded, and were it not for other great advantages would have ceased. The approaching maturity of all the bonds of the United States, and the settled purpose of the people that this debt shall be paid, has caused the agitation for several years past of the question—*What shall be done to perpetuate a system of banks of circulation?* The financial condition of the country resulting from the agitation concerning the coinage of silver, and more recently from the preposterous plan of purchasing of silver bullion by the United States, and the outcry from the more remote sections of the country that they are suffering from loss of circulation resulting from the retirement of national bank notes, forces urgently upon our attention the question, what system of bank note circulation adequate to the needs of the country can be devised?

Two methods of providing the currency demanded have come prominently to the front ; first, the return to the system of the issue of circulating notes by State banks ; second, the perpetuation of the national banks, and the substitution of some other form of security for that at present used.

The definition of the requirements of a perfect form of paper currency, made by the late John Jay Knox, has always seemed to me entirely adequate. It was, "that the attributes of a perfect system of paper currency in this or any other country are: (1), safety ; (2), elasticity ; (3), convertibility ; (4), uniformity."

The two essential attributes of any such currency are : first, safety, and second, uniformity. The safety of any such currency must not only exist, but must be known to all men to exist. The citizens of California may be entirely certain of the safety of notes issued by banks under the laws of that State, but the citizen of Maine would assuredly be uninformed upon that subject. The safety of a bank note currency, known only to the skillful or the residents of the State in which the bank was located, would avail nothing in making such circulation answer the purposes of business to the unskilled inhabitants of other States. As the majority of the citizens of our country are, and are likely to remain, both unskillful and uninformed as to the laws of communities other than that in which they live, we should not, under a system of State banks, have that widely recognized safety in a bank note issued under State law, which is the primary and essential attribute of a sound paper currency did we depend upon the notes issued by banks regulated only by the law of the State in which they were located. Equally sure is it that we should have no uniformity in the safeguards thrown around such notes. The belief that such uniformity could be created by the legislation of forty-four independent States has been correctly designated as "utter folly." In the experience which I have had in examining the various systems of banking, proposed by members of the present House of Representatives, I find the irrefutable evidence of the widely

divergent ideas of different sections of the country upon this question of the proper method of issuing and securing paper money. In my judgment, the attempt to solve the problem of furnishing safe and uniform currency under the authority of forty-four different sovereignties might as well be abandoned at once. It failed before the war, and that failure was the result of the inevitable divergence of views upon this question between the different sections of the country. A system regulated by the national government is the only one which can be relied upon to furnish a currency known by everybody to be safe and of uniform value throughout the length and breadth of the land.

Second. The suggestions with regard to the substitution of some other form of security for that at present used has divided itself broadly into two classes, (a) the creation of a safety fund, and (b) the substitution of other kinds of bonds for those of the Federal Government.

Those who advocate the securing of national bank circulation for the future by a safety fund, urge it upon the attention of the country as being the more scientific method. Practically they make the circulating notes a first lien upon all the assets of the bank, and go to the safety fund only to make up the deficiency. There seem to me to be two objections to this method of securing the circulation. It deprives the banks of the fund which is the basis of its credit in asking for deposits. Without the deposit the banks cannot do a profitable business. It is difficult to believe that, the capital being subjected to a first lien for the amount of the notes, and there being always the possibility of an over-issue of such notes, the credit of the bank in its discount and deposit business would not be impaired. It is calling upon the capital to do a double work when it is already loaded with the single task of inspiring confidence in the people who have to make deposits.

Then, too, it imposes upon solvent and well-managed banks burdens from which they reap no direct benefit and pays a premium upon bad management. A bank which is well

managed and is making money as a bank of discount and deposit will have but slight, if any, inducement to go into a system which enables it to issue circulation, for which it has but little need if, by so doing, it is compelled to pay out of its earnings and profits for the losses occasioned by the bad management or conduct of the officials of some other institution over which it has no control. The result, it seems to me, would probably be that the banks which are best managed and strongest, and whose presence in any system is most desirable, would have the least temptation to go into it. The safety fund itself, on any system which has come under my notice, will have to be created after the notes are issued, and the notes may get into circulation and use before the security for their payment is called into being. The method may be as scientific as its advocates claim, but it does not seem to me to be practical.

The commonest form of objection to the substitution for national bonds of other securities as a basis of the issuing of bank note circulation, is that the Government of the United States ought not to guarantee the payment of notes based upon securities not its own. This objection is founded upon a mistake. The contract of guarantee is well understood to be a promise upon the part of some one other than the principal debtor to perform his obligation. The Government of the United States has never made any such promise, and never ought to make it. Its relation to the holders of national bank notes is purely that of trustee, and as such it should remain. Whatever the form of security used might be, the Government or its officers should hold those securities only to perform the promise of the Government to sell them and apply the proceeds as far as they go to the payment of the notes. That is all it now promises. That is as much as either the reason or the necessity of the case requires. The Government may as well hold other securities than its own as to hold the present class of securities for the purpose of performing that promise.

Another objection to the substitution of any other class of securities is that their value is less certain. That objection is a valid one, as it seems to me, to the use of any promises to pay which are not enforceable by the exercise of the taxing power, and also of the securities issued by any community which has heretofore failed to perform, according to the letter, its contracts. State, county and municipal bonds of communities, which have not in recent years defaulted, are available, for this purpose. One advantage of their use, and particularly the use of the latter classes is that it makes available for banking purposes the credit of the very communities which need the circulation. With the increase of intelligence and wealth in all communities within our borders, with the more rapid and constant intercommunication between the different parts of the country the chances of any repudiation of obligations by State or smaller subdivisions of the country are very much lessened. The use of such securities as a basis of banking in the community issuing them would render practically impossible any repudiation. It is a comparatively easy matter to refuse to pay debts due to persons not living within the same community as the debtor, but the financial, social and political influence clustered about a bank renders practically impossible the repudiation by the community in which the bank exists of the obligations upon which the bank itself rests as the basis of its credit. It is true that these local securities, while equally valuable, might not be as readily convertible as federal bonds, and it is not improper that if they are to be used some method should be devised to furnish the means for the immediate redemption of the notes of every failed bank without using undue haste in realizing upon such forms of security.

I believe, therefore, that it is entirely safe to base an issue of bank circulation upon the security which would be offered, first, by the deposit in lieu of national bonds of State, county or municipal bonds; second, by making the bank note issue a first lien upon the assets of the

bank including the personal liability of the stockholder ; and third, by creating a moderate sinking fund from which the notes could be redeemed at once upon the failure of the bank, provided that out of the other two classes of security the amount taken from the safety fund should be made good, less the amount contributed to it by the failed bank. Such a system would put the Government in funds to immediately redeem the notes ; would afford the opportunity of holding the local securities until they could be safely and properly disposed of at fair price, and would render the notes themselves equally as good as those at present issued. It is not open to the objection that the banks would be deprived of a portion of their capital without receiving any return therefor, because the bonds would bear interest. It would not seriously affect the credit of the bank with its depositors, because under proper regulation the securities deposited would certainly pay the notes, and hence no recourse to the general assets of the bank would ever become necessary. Nor would the better banks have the same ground for objection to a safety fund to be thus used, as to a general safety fund, because their proportion of it would never be used, except temporarily, to redeem the notes of any bank except their own. The advantages to them of a system, uniform all over the country, would be sufficient to compensate them for the loss of interest upon the money constituting their contribution to the safety fund. Whatever they did contribute would perpetually remain theirs, for the liquidation of their own obligations under any and all circumstances. Of course, details of the system, providing for entire publicity, thorough examination, for taxation and inexpensive redemption need to be added to the general features of this plan.

It should also be noted that there are yet fourteen years before the federal bonds can be paid off ; that they may be as others have been, extended ; and that the issue of other bonds by the federal government is a possibility unfortunately not remote nor improbable.

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THE SURPLUS GAINS OF LABOR.

In a recent number of the ANNALS I expressed my appreciation of the recent and valuable monograph of Professor Patten entitled *The Theory of Dynamic Economics*. Predicting that this work, when completed, will be an epoch-making one, I dissented from one of its statements, which asserts that a laborer realizes a surplus gain from the last labor performed in a natural working day. A true surplus seems to me to be a net accession of well-being in consequence of all the effects of this final labor. The work of the last quarter of an hour benefits the man through the things that he can buy with the wages then earned. It injures him, first, by the weariness that it entails, and secondly, by the confinement that it involves. It deprives the man, first, of so much nervous and muscular tissue, which is a physical loss, and, secondly, of so much pleasure that he might otherwise have had from walking, conversing with friends, playing games, fishing, gardening, reading, etc. It trenches on enjoyments that cost nothing and require only time.

In considering whether there is a surplus of benefit realized from working through the last fifteen-minute period of the day, one must take account of one plus quantity and of two minus quantities. The whole benefit comes from the articles bought with the wages of the final period; while the injury is the sum of two sacrifices, of which one is caused by weariness and the other by confinement. If the plus quantity exceeds the sum of the two minus quantities there is a surplus gain realized; if it falls short of equaling this sum, there is a loss, and if it just equals it, there is neither a gain nor a loss from the work of the terminal period.

In making the computation in an arithmetical way it is possible to add the two negative quantities together as a subtrahend, and deduct them from the positive figure that

represents gain ; or we can subtract from the figure representing gain, first, the quantity representing sacrifice entailed by confinement, and compare the remainder so secured with the figure representing the sacrifice entailed by weariness. Confinement means a loss of free utilities. Estimate this loss numerically, and deduct it from the figure representing the utility of the earnings of the final period, and you have the net gain of the final labor. Subtract from this the amount representing the direct disutility of labor, and the remainder, if there is one, is a surplus.

This amounts to saying that the figures representing deductions from well-being may be added, and the sum may be subtracted from the amount representing the gross increase of well-being, or the two deductions may be made successively. If the object be simply to test the existence of a surplus at the terminal point of labor, it makes no difference which process we adopt.

If there are incidental objects to be secured, one method or the other may have a preference. If we wish to get all the utilities, free or otherwise, realized in an entire day into one sum and compare this with the positive pain inflicted by the entire labor of the day, the second of the two processes would be the one to adopt. If we wish to make the simplest possible test of the net effects of the terminal labor, the first method would be the one to take. Gain is so much ; losses by confinement and by pain from work amount to so much ; which sum is the greater ?

It has seemed to me that the term *cost* is well adapted to express all deductions from well-being entailed by getting a useful thing. In popular speech, we defray the cost of buying a thing when we take money from our pockets ; and the money stands for utilities. We pass potential enjoyments over the counter and get a particular enjoyment by the means. We do not inflict on ourselves a positive pain. The loss of free utilities entailed by confinement, and by the pain inflicted by labor, seem both to be deductions from well-being ; but the former of the two seems to me to be more

nearly of the kind usually indicated by the word cost. It is not, however, this point in terminology, discussed by Professor Patten in his recent reply to my criticism,* that I wish most to have decided, but a point of fact. Is there a surplus of gain realized from terminal labor? I cannot see that there is. A man does not voluntarily stop working when he can gain more than he loses by going on.

In the monograph referred to, I understood Professor Patten as meaning that there is a surplus of gain from final labor above the cost represented by the labor itself, and that this surplus is equal to the gratifications lost by confinement; so that, if this loss be first deducted from the direct gains secured by terminal labor, these will be reduced to a point at which they will constitute a bare offset for that labor. The net surplus will vanish. "There is for the efficient workmen," says Professor Patten, "a surplus at the margin of production equal to the pleasure that could be obtained in using their time in unproductive consumption."† This looks as if they could have had as much pleasure as their surplus gain amounts to without working at all. The loss of the free gratifications offsets those that are secured by work and are not neutralized by the fatigue of the work.

From his paper in the *ANNALS* for January, 1893, I now understand that Professor Patten takes due account of the loss of free pleasures entailed by confinement, and finds that, in spite of it, there is a true surplus gain realized at the margin of production. The former of the two arithmetical modes of testing the existence of the surplus should not, as he thinks, be adopted. The free pleasures that are lost by confinement should first be estimated and deducted from the sum representing the pleasure derived from articles procured by the terminal labor of the day. The remainder will still yield an excess of gain over the sacrifice directly involved by the fatigue of labor. I quote from this paper:

* See the paper on "Cost and Utility," in the *ANNALS* for January, 1893.

† Theory of Dynamic Economics, p. 71

"To make the problem definite, I shall use some tables representing the utility and the cost of the various articles :

I.		II.		III.	
Utility.	Cost.	Utility.	Cost.	Utility.	Cost.
A, . . . 8	1	8	1	8	1
B, . . . 7	2	7	2	7	2
C, . . . 6	3	6	3	6	3
D, . . . 5	4	5	7	2	4

"In the first table, let the utility and cost be represented as they would be if there were no loss in consumption resulting from the extra hour's work. We will suppose that the utility derived from the consumption of the first three articles will be reduced three units if the work is extended through the tenth hour. Then, if I understand Professor Clark correctly, he would estimate the utility and the cost of the articles as in the second table. The diminution of the utility of the first three articles is a cost, he says, and this cost added to the pain of producing D would make its total cost seven units, thus preventing its production. I would, however, estimate the utility and the cost according to the third table. Under the conditions assumed, the joint utility of A, B and C, if D is not produced, is twenty-one units. If D is produced, the joint utility of the four articles is twenty-three units. The utility of D under these conditions is therefore but two units. If the workman works ten hours, the tenth hour adds two units to his stock of utilities and his cost is four units; *therefore he will not work the extra hour.*" The italics are mine.

I accept the arithmetic as sound and agree with the conclusion that the loss of free pleasures, taken in connection with the pain inflicted by labor itself, has the power to bring work to a stop. In my view it will do this under normal conditions, not at the end of the ninth hour, but at the later point, where the pain directly inflicted by labor just offsets the net gain in utility secured by that labor. In locating the point in this way we use a notation of the kind indicated in

Table No. 3. Again, the stopping point will be reached when the total deduction from well-being entailed by final labor equals the gross gain secured by that labor. In locating the point by this method we proceed according to the mode of calculation shown in Table No. 2. By either test there will be, as I continue to think, a point of equilibrium; and in the case described it could be located somewhere between the end of the ninth hour and the end of the tenth. Through the earlier part of the tenth hour the man is realizing a true surplus; if he works through the latter part, he experiences a loss. A point exists where there is neither surplus nor loss, and this fact may, as it seems to me, be revealed as well by the one notation as the other.

Let us put ourselves in the worker's place. It is now five o'clock in the afternoon and, according to the conditions assumed in Professor Patten's table, the sacrifice entailed by confinement has not yet made itself felt. By six o'clock confinement will have cost the man three units of free pleasure, and the labor itself will have inflicted four units of pain. The subjective value of the article procured by working till six o'clock is five units, thus affording an excess of only two units of net gain; and as the direct pain of working has a negative value of five units, the man does not do the entire hour's work.

Will he do a part of it? The loss entailed by confinement cannot come upon him all at once, as he enters on the tenth hour spent in the shop. According to the principles on which the entire theory is based the gain that can be made by working through a third of the tenth hour is slightly more than a third of the five units of the table. The articles procured by the earnings of successive periods of equal length are of continually diminishing utility. We will say that the man can, in one-third of an hour, earn something worth one and five-sixths units. The loss of pleasure through confinement during this fractional hour is far less than a third of the three units. Confinement in-

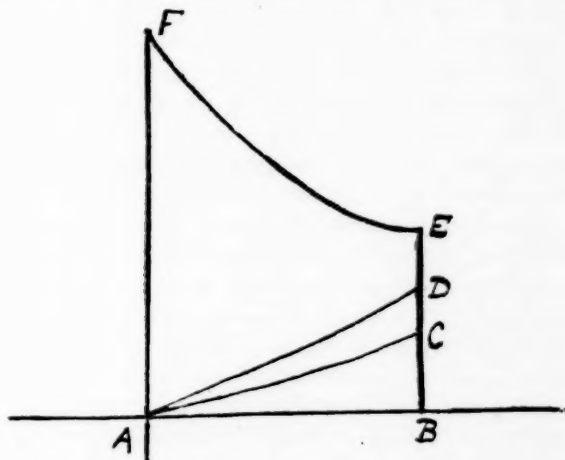
creases in burdensomeness as time advances, and costs very little when it first makes itself felt. We will call the loss from this source two-thirds of a unit. The pain of the labor of this third of an hour is less than a third of the four units of the table. We will estimate it at one and a sixth.

Utility of article procured,	1 $\frac{2}{3}$
Utilities lost by confinement,	$\frac{2}{3}$
Net utility gained by this labor,	1 $\frac{1}{6}$
Direct disutility of labor,	1 $\frac{1}{6}$
Surplus of gain,	0

That the surplus vanishes at twenty minutes past five o'clock in the afternoon, and that the man naturally stops work at that point, may be shown by either of the two arithmetical processes suggested. We may add two-thirds to one and a sixth and subtract the sum from one and five-sixths. This is taking both varieties of what I have termed costs from the gross gain of the final period. It leaves no remainder. Again, we can deduct two-thirds from one and five-sixths, and from the remainder take one and one-sixth. This is first deducting from the gross gain the loss entailed by confinement, thus determining the net gain, and from this again deducting the amount representing the direct disutility of labor. This process also leaves no remainder. At twenty minutes past five o'clock the net benefit that the man gets from the labor then in process becomes *nil*.

This tabular statement can be varied in a way that will express my view without raising points with which Professor Patten will disagree. The loss by confinement comes mainly in the lessened enjoyment of perfectly free utilities. The man cannot walk, talk, gaze at scenery, meditate, etc., as much as he would like to do. It is not, therefore, an imperfect consumption of the fruits of labor that is the largest item to be considered. Figures can be added expressing the measure of the free utilities, and the loss by confinement can be expressed mainly by reducing them.

The point at which the sacrifice from confinement begins to make itself felt appears to me to be earlier than the end of the ninth hour. It varies with the nature of the work and with that of the worker. Labor calling for severe muscular or nervous strain may exhaust the man's energy early and release him from the shop at a point at which he has not severely felt the sacrifice from confinement. This, however, is the opposite of a typical case. Monotony, rather than strain, characterizes many kinds of work, and here confinement tells on the man, perhaps, as early as fatigue itself.



A full tabular representation of the facts would recognize the positive pleasure that sometimes comes from the earliest period of work. Sacrifice from exercise and from confinement is often a negative quantity for an hour or two. This fact, of course, has no bearing on the result of the final or marginal period; and it is that that we are studying.

A graphic representation may be made to express what seem to me the essential facts bearing on the present question.

Let measurement on the line A B represent time, and let vertical distance from that line to the descending curve, F E,

represent the utility of things procured in successive hours of work. Let vertical distance from the same base line to the ascending curve, A D, represent the sacrifice from fatigue, and let that from the base line to A C represent the sacrifice from confinement. The man will stop when the two sacrifices added together equal the gain secured. The terminal point of labor is where $BC + BD = BE$. This follows the method of calculation indicated in the second table of Professor Patten's article. Again, the man will stop when BE , the gross utility of the last thing bought, less BC , the sacrifice from confinement, equals BD , the sacrifice from fatigue. This statement follows the method used in Professor Patten's third table, and shows that the utility of the article last purchased is neutralized by the two sacrifices, as before. From my point of view, both methods are correct as means of testing the single question whether a surplus of gain is realized from the labor of the terminal period of the day. Both seem to answer this question in the negative.

Thanks are due to Professor Patten for helping to establish the true relation between land and other capital goods.* If interest represents a cost, rent does so; for saving money with which to buy land entails abstinence on the individual who does it, as truly as does any other saving. In connection with this point an important truth can, as it seems, be expressed by changing in another particular the table above referred to. Professor Patten supposes that the worker actually makes, in the successive periods of labor, the things that he himself consumes. He would have to make them by the aid of land and other capital, and a question would arise as to how, in the table, rent and other interest are provided for.

In the graphic representation above given it is assumed that the man is earning these things, but is not literally making them. He is earning money and buying what he will. In this way the smallest addition to his income can be

* Theory of Dynamic Economics, p. 55.

gauged in importance. An extra penny a day becomes an appreciable quantity after a week or two, and may be spent on something that will give an assignable degree of pleasure. The adjustment of gains to sacrifices can in this way be made more accurate than would be possible if it were necessary to use the supposed tenth hour for making some particular article that the man can in that period select and carry to completion.

This, however, is not the important consideration in the case. The whole relation of the two productive agents, namely, capital goods, including land, on the one hand, and labor, on the other, is involved in the notation selected. In our graphic representation nothing is said about rent and interest. This is because they constitute a part of the industrial product that does not need to come into view. The diagram above used recognizes only the earnings of labor itself, as the gain in the case, and not the whole output of the shop in which the labor is employed. If the work done is shoemaking, every shoe is the joint product of instruments, including land, on the one hand, and labor, on the other. A thesis that can be proved—though not in this article—is that wages are true earnings, under natural conditions. The normal wage of labor is the product specifically attributable to labor.

This involves a separating of a product created by men and instruments into two fractional parts, of which one is, in reality, produced by men alone, and the other by instruments. It involves, in short, a solution of the problem of *imputing productivity* to two unlike agents that co-operate in making the same thing. It is determining what fractional part of a shoe is due to land, building, engine, machines, raw material, etc., and what other fractional part is due to the activities of the men who use these instruments.

A stone is raised by a hand on a crow-bar; how much of the product is due to the hand and how much to the bar? A load of fish is secured by two men and a sail boat; how many of the fish are specifically attributable to the men and

how many to the boat? We cannot here say. Without an extended analysis we certainly cannot impute to labor and to capital the shares of the output of an industry that are severally due to them. If we could do this, and if we could further prove that the tendency of natural law is to give to each contributing agent the part that is due to its action, we could substitute in the diagram used product of labor for wages of labor. What a man gets as pay for the tenth working hour of the day is what he himself separately creates. In the entire diagram there is no need of any area representing rent or other interest. Labor creates the product there represented and gets it.

In this view it is easy to see whether rent and other items of interest are elements of cost or of surplus gain. Let us in imagination perform the operation of imputing utility to labor and to capital in the shoe factory. We will lay out the shoes in two heaps, of which the men are the virtual creators of the one, and the appliances used are the virtual creators of the other. To the men we will give the one heap as wages, and to the capitalists, including landlords, we will give the other as interest. Is either pile a surplus? One is the offset for one cost, and the other is an offset for another. There is a distinct sacrifice back of each gain in the case.

Is the pile that represents interest, including rent, a surplus from the worker's point of view? In the sense of being an excess, in the gross output of the mill, above the part that the man has contributed, it is so; but it is an excess that is brought into existence by the productive sacrifices of others. In like manner the wage earners' pile, from the point of view of the capitalist, is an excess in the gross output of the mill above the part that he has contributed; but it is an excess that is called into existence by the sacrifices of the laborer. If the whole output is created by these two classes of contributors, and is received by them as income, there is no objective surplus in the case.

The surpluses received by these producing agents appear to me to be subjective. In the case of the worker they seem

to be the personal gains from work during the earlier periods of the day. This may be termed *intra-marginal* labor, or labor performed before the equilibrium of gain and sacrifice is reached. In the case of the capitalist they are the gains from *intra-marginal* abstinence, or from that saving that takes place before the self-denial involved equals the gain that is thereby secured. I believe that every one of the valuable conclusions attained by Professor Patten in his recent work is consistent with this view.

J. B. CLARK.

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BRIEFER COMMUNICATIONS.

CONSUMER'S SURPLUS.

Without entering into controversy, I would like to say briefly that Professor Patten, in his able paper in the last number of the *ANNALS* on "Cost and Utility," has misconceived what I mean by the term "Consumer's Surplus." He says (p. 30):

"The two methods of measuring utility can be illustrated by comparing Professor Marshall's view of consumer's surplus with mine. He takes as the utility of the first increment of a good what a consumer would give if he possessed only one increment; the utility of the second increment is what the consumer would give for it if he had but two increments, and so on. In this way he gets the consumer's surplus of each article.

"Suppose I am in a desert with three loaves of bread. To the first I might attribute 200 units of pleasure, as it would keep me alive; to the second say 50 units, as it would make me comfortable; to the third, say 5 units. If instead of bread I had three pounds of meat, I might attribute to the first pound 300 units of pleasure; to the second 75 units; and to the third, say 10 units. If, as a third hypothesis, I had both articles to the amount named, could I add the two surpluses (255-385) and say I had 640 units of pleasure? Certainly not."

This is not perfectly explicit; but I can understand it only as meaning that he would expect me to add them together in such a case. And indeed he continues a little later on:

"Professor Marshall's consumer's surplus would be much larger than mine, because he estimates the surplus not from a given situation of the consumer, but from a series of situations representing different stages of supply. It seems to

me misleading to add together the surplus under a variety of abnormal situations and call the sum the consumer's surplus, because it implies that the given surplus is really obtained by the consumer. This is not true, as no consumer can be in all these situations at the same time, nor do any number of consumers find themselves in the variety of situations which would make the consumer's surplus from the whole commodity correspond to the supposition which Professor Marshall makes."

If I have interpreted him rightly, he has interpreted me wrongly. For my demand schedule—from which my consumers' rent or surplus is derived—represents the prices at which various quantities of a commodity (say bread) can find a market. In the case of any individual purchaser these prices represent marginal utilities of successive elements. But in every case, all other things are supposed to remain unchanged; and particular stress is laid on the fact that there is no change in the conditions of supply of any other commodity (say meat), which is a "rival" to it (the bread), and can partially satisfy the same needs.

For instance, on p. 157,* immediately after formulating the "Law of Demand," I write:

"It must be remembered that the demand schedule gives the prices at which various quantities of a thing can be sold in a market during a given time and under given conditions. If the conditions vary in any respect, the figures of the schedule will probably require to be changed; and this has constantly to be done when the desire for anything is materially altered by a variation of custom, or by a cheapening of the supply of a rival commodity, or by the invention of a new one. For instance, the demand schedule for tea is drawn out on the assumption that the price of coffee is known; but a failure of the coffee harvest would raise the prices throughout the demand schedule for tea; and again, the demand for gas is liable to be reduced by an improvement in electric lighting. . . . The question where the lines of division

* Second edition. Nearly the same words occur on p. 160 of the first edition.

between different commodities should be drawn must be settled by the convenience of the particular question under discussion. For some purposes it may be best to regard Chinese and Indian teas, or even Souchong and Pekoe teas, as different commodities, and to have a separate demand schedule for each of them. While for other purposes it may be best to group together commodities as distinct as beef and mutton, or even as tea and coffee, and to have a single schedule to represent the demand for the two combined; but in such a case, of course, some convention must be made as to the number of ounces of tea which are taken as equivalent to a pound of coffee." See also pp. 438-9 (in both editions). But the passage which most closely follows the lines of Professor Patten's remarks is in a note in the Appendix, p. 753,* referring to the passage in the text which contains my definition of consumer's surplus, it runs:

"If, however, an amount b of the commodity is necessary for existence [the utility of the first element] a will be infinite, or at least indefinitely great, for values of x less than b . We must therefore take life for granted, and estimate separately the total utility of that part of the supply of the commodity which is in excess of absolute necessities. . . . If there are several commodities which will satisfy the same imperative want, as *e. g.* water and milk, either of which will quench thirst, we shall find that, under the ordinary conditions of life, no great error is introduced by adopting the simple plan of assuming that the necessary supply comes exclusively from that one which is cheapest."

This last passage seems almost to anticipate Professor Patten's problem about bread and meat, and to state clearly how I would treat it. I will, however, confess that my account of consumer's surplus would be improved by fuller explanation, even at the expense of some repetition. As it stands, it has misled other people besides Professor Patten, though not, so far as I know, exactly in the same way.

* P. 740 of the first edition.

Perhaps I may be allowed to end with an Englishman's expression of admiration, tinged perhaps a little with envy, at the generous opportunities which the rapidly growing number of American universities is offering for advanced economic study, and at the zeal and ability with which these opportunities are being turned to account.

ALFRED MARSHALL.

Cambridge, England.

COMPULSORY VOTING.

A paper on this subject appears in the fourth number of the first volume of the *ANNALS* over the signature of F. W. Holls, calling attention, in an interesting and forcible manner, to a defect in our political system which may in time, if not remedied, prove destructive of our scheme of government. That defect consists in the lack of interest felt by a large and increasing proportion of our best citizens in the selection of our rulers.

It is not to be denied that very many of those best qualified to judge of the fitness of a candidate for the office for which he is proposed utterly neglect to take part in the nominations and elections, leaving those important and sacred duties to the leaders of political parties and their tools, men whom they can cajole or bribe to do their bidding. The business of governing thus falls into the hands of corrupt leaders and ignorant followers. It is not giving our form of government a fair trial when the most competent of our citizens neglect or refuse to do their part in providing for the public welfare.

The evil is quite obvious, as well as its disastrous consequences unless averted.¹ But it is not easy to find a competent remedy. Mr. Holls and others whom he quotes propose to make the neglect of voting a misdemeanor punishable by fine and, possibly, imprisonment. This is of very doubtful expediency. Criminal laws have never shown themselves to be very efficacious in procuring the performance of moral and

social duties, and there is no reason to suppose they would be more potent in enforcing political ones.

The law against public drunkenness is almost a dead letter. The same may be said of the laws against profane swearing and Sabbath-breaking. In fact criminal laws are only intended to whip in the one per cent., or less, of the community who are not amenable to the higher court of public opinion and the still higher court of conscience. The function of criminal law is to punish glaring improprieties of conduct, such as the almost universal common sense of the community will not only condemn but desire to punish.

If a fourth of our citizens were thieves there could be no preventing larceny by means of criminal law. The reason is obvious. The laws depend for their enforcement on courts and juries. No man can be convicted except by the judgment of his peers, that is to say, by the verdict of a jury of the county where the offence was committed, and the finding of the jury must be unanimous. Juries are composed of the average adult male citizens, unless they are made worse than the average by corrupt means. If one-fourth of the citizens are opposed to punishing the crime, as they would be if addicted to it themselves, then the chance of getting a jury of twelve men in any particular case unanimous in favor of punishing the offence, by selecting indiscriminately out of such average citizens, would be very small indeed.

Take the case in question, the enforcement of political duties by criminal laws. More than one-fourth of our adult male citizens habitually neglect both the primaries and the elections. By the doctrine of chances there would be, therefore, more than three men on every jury called, who would be opposed to the enforcement of the law, and as one in twelve is sufficient to prevent the finding of a verdict of guilty, it is plain that convictions would be very rare indeed.

There is, however, a mode by which, it is submitted, most of our delinquent citizens could be induced to perform their political duties. That mode is to abate the taxes by, say, five or ten per cent., of every man who could show that he

had attended the primary meetings of his political party and the elections, for the current year, and voted for some candidate or set of candidates. This would be an indirect punishment of those who did not so qualify themselves for the abatement, and it would not require the intervention of a jury to inflict it.

As a punishment it would bear heaviest on the wealthy, and that in proportion to their wealth. This would be right, because it will be found to be the wealthy who habitually neglect their political duties: some from a dislike to mingle with their humbler fellow-citizens, others because they are engrossed in their schemes for amassing wealth and have no time for the performance of the mere vulgar duty of "running" the government.

It should be made the duty of the officers of the primaries and of the elections to give to every man who asks it, at the time of voting, a certificate that he did attend and did vote; and this certificate should be made the only and the sufficient evidence for the collector of taxes to act upon in abating the tax. The collector should receive the certificate as that much tax and should return it to the officer to whom he accounts, marked with the amount of tax it represents, and it should be preserved for future reference.

This would be rather in the nature of payment for the performance of the duty than as punishment for neglecting it, just as we pay jurors for the performance of their public duties, and as such it is obvious that no excuse should be received for the non-performance. It may be urged that this would be hard upon those who are prevented by absence or sickness from attending the primaries and elections; but it is no more hard than it is on the juror to deny him his pay when prevented from attending court by similar reasons. Considered simply as a payment for the performance of duty it is the citizen's misfortune if he is prevented by unavoidable cause from doing the work. To accept an excuse for not acting would open the door to innumerable frauds and would impose much labor and risk of mistake on the tax

collector. The question for the collector should be simply, Did the citizen do the work? and this would be settled by the certificate.

It may be objected that women, minors, non-residents and corporations would be unfairly affected by such a measure, and this is a serious consideration. But in all these cases the services are simply not performed and therefore should not be paid for. Let us consider each of these cases in order. The tendency of the age is rapidly remedying the case of women. Before very long all who are bound by the laws will have an equal voice in making them, without regard to sex. Until that time comes it is surely no greater hardship upon a woman to deny her payment for services which we will not let her perform than it is to submit her to the operation of laws she has no voice in making. And the State that governs her without her consent may well refuse to pay her for services she does not perform.

The same argument will apply to minors, with this difference in their favor, that a few years in each case will remedy the difficulty. As to non-residents, we must remember that it is only the land of these that is taxed and, taking into consideration the evils of "absenteeism," the State may well be allowed to discriminate somewhat against absent land-owners. Beside this, they do not perform the services and therefore should not receive the pay. This latter argument applies with full force to corporations. In addition to this it may be said that the taxation of corporations is done by the State by peculiar laws not adapted to the citizen.

The plan proposed, having some features of compulsion, may, at first, secure the performance of the duties in a careless, perfunctory manner, and therefore may at first have little good effect. But in time the voter who begins by voting merely to save his money will soon find himself acquiring an interest in the business apart from that feature of it, and will gradually come to act from the higher motive of serving his country.

To conclude, a very little reflection will show us that some means must be resorted to to compel or induce our most competent citizens to perform their political duties. A very little knowledge of the operation of criminal law will satisfy us that that is not the adequate means. We must abandon the idea of punishing where the cause of complaint is against so large a portion of the community. The mode proposed in this article may not be the best one, but at least it is capable of being carried out, while criminal law in this respect would not be.

Media, Pa.

JOHN M. BROOMALL.

MINUTES OF THE PROCEEDINGS.

SIXTEENTH SESSION.

The Sixteenth Scientific Session of the Academy was held in Philadelphia, on Wednesday, November 30, 1892, at the New Century Club, at 8 p. m.

The secretary announced that the following papers had been submitted to the Academy :

111. By Leo S. Rowe, Berlin : Conference of the Central Bureau for the Promotion of the Welfare of the Laboring Classes. Printed in the *ANNALS*, July 1892.

112. By Van Buren Denslow, New York City : Böhm-Bawerk's Theory of Interest.

113. By James P. Munroe, Boston : The Free High School—an Economic Fallacy.

114. By Professor Francis N. Thorpe, of the University of Pennsylvania : American History and Institutions in American Education.

115. By S. M. Lindsay, Berlin : Social Work at the Krupp Foundries. Printed in the *ANNALS*, November, 1892.

116. By Professor A. B. Woodford, of the College of Social Economics : On the use of Silver as Money in the United States.

117. By Casper T. Hopkins, Pasadena, Cal. : Education of Politicians.

118. By William Howe Tolman, Pawtucket, R. I. : The Kyrle Society.

119. By Professor William Smart, of Queen Margaret's College, Glasgow : The Effects of Consumption of Wealth on Distribution. Printed in the *ANNALS*, November, 1892.

120. By Professor F. C. Hicks, of the University of Missouri : The Agricultural Problem.

121. By Professor E. A. Ross, of Cornell University : The Standard of Deferred Payments. Printed in the *ANNALS*, November, 1892.

122. By Stoughton Cooley, Chicago : The Ethics of Taxation.

123. By Rev. J. P. Whitehead, Franklin, Ky. : The Indian Question.

124. By Professor Jesse Macy, of Iowa College : Parliamentary Procedure. Printed in the *ANNALS*, November, 1892.

125. By Professor C. S. Walker, of Massachusetts Agricultural College : The Farmers' Movement in the Northern States.

126. By C. W. Macfarlane, Freiburg : Robertson's "Fallacy of Saving."

127. By Professor Conrad Bornhak, of the University of Berlin: Local Government of Country Communities in Prussia. Printed in the ANNALS, January, 1893.

128. By Mrs. Florence G. Buckstaff, Columbus, Wis.: Married Women's Property Rights in Anglo-Saxon and Anglo-Norman Law.

129. By Professor S. N. Patten, of the University of Pennsylvania: Cost and Utility. Printed in the ANNALS, January, 1893.

130. By Lester F. Ward, Washington: The Psychologic Basis of Social Economics. Printed in the ANNALS, January, 1893.

131. By Professor Lyman P. Powell, of the University of Wisconsin: Thomas Hobbes, a Study in the History of Economics.

132. By Professor E. A. Ross, of Cornell University: Seligman's Shifting and Incidence of Taxation, Printed in the ANNALS, January, 1893.

133. By Professor F. H. Giddings, of Columbia College: Ethics of Social Progress.

Professor F. H. Giddings, of Columbia College, then read a paper on "The Ethics of Social Progress." (No. 133.)

He said, "My paper will be an elaboration of the following propositions: First, all rational human life is a product of social conditions and all ethical personality, conceived as a well unified self-conscious mental life, harmonious within itself, and capable of indefinite expansion, is a product of those social conditions that we call progress. Ethical doctrine can be worked out, therefore, only in terms of a theory of social progress. Second, all social progress costs something. There can be no developmental increase and transformation of human activities except at the price of an absolute increase of social evils, that involve suffering, though if the progress is real, the absolute will not be also a relative or proportionate augmentation of evil. Moreover, these costs of progress are unequally distributed. The good of those who gain in material and moral well-being is bought with vicarious suffering. Third, a rapid rate of social change, especially an extreme intensity of industrial activity, exceeding the rate of creative reorganization, necessarily magnifies social evil and converts much of it into moral evil. The end would be social disintegration but for a reaction which sets in. The ethical consciousness of the

community is aroused and unified. A public and private philanthropy is created and tends towards a unified policy. Fourth, but all such reform or philanthropic work is itself a phase of progress and, like all other phases, has its cost in effort and suffering. Therefore, if philanthropic reform is hurried or pursued by too radical methods, it may convert the absolute increase of evil which progress costs into a relative increase, and so wholly defeat itself.

"The demonstration of these propositions is two-fold. They are corollaries of mental and physical laws, of the conservation of energy and the conditions of evolution. They are verified by historical and statistical facts. The suffering which progress costs is incidental to the destruction of valued relationships, of property and of occupations, made necessary by social growth and change. The essential fallacy of socialism is the assumption that these destructive changes might be prevented in a developing world. Poverty, therefore, can never wholly disappear, because men and women can never be alike creative, resourceful, versatile, and so capable of quick readjustment to changing conditions. Great numbers of men and women will always be practically unfree, not legal slaves, as in former times, but actually subject to task work under mastership. Ancient slavery was not a product of tyrannical oppression; it was the only economic disposition that could be made of those elements of the population that has failed in the first great creative tasks of civilization. The men and women in economic bondage to-day are miserable because the only services they know how to render have ceased to be of value in a civilization which is moving on to new methods and larger achievements. Society does not oppress them, it tries in crude imperfect ways to utilize and support them. Socialism could only substitute the public for the individual master.

"It does not follow that *laissez faire* is the last word of social science, nor that society has no moral responsibility for the costs of its own advancement. Under the intense strain of modern competition, due to the accelerating rate of

social change, population is concentrating in cities faster than wholesome conditions can be created, and millions of ignorant people are entering upon migrations that have no definite destination. Under such circumstances, the struggle for success results in an appalling moral wreckage. Statisticians have long recognized that suicide is a phenomenon of civilization. Mendsley finds in the extreme passion for getting rich a chief predisposing cause of moral degeneracy and insanity in offspring. Crime is no longer attributed by the well-informed to poverty, since rich and poor contribute in proportion to their numbers to the total criminal population.

"What, then, is the ethical duty of individuals and of society? It is first of all to admit frankly that in progressive society one portion of the community should be regarded practically, as in Christian doctrine, as free from the law, while another portion is under bondage to the law; because the one is creative, resourceful, capable of self-mastery and self-discipline, while the other can be made useful, comfortable, and ultimately free, only by being brought under mastership and discipline for a time. We habitually ignore this distinction in all matters save the separation of the criminal from the law abiding. We accept *laissez faire* as good for all men and all industries alike, or denounce it as bad for all alike. We advocate socialistic methods for the entire field of industry, or pronounce them impracticable for any part. We denounce compulsory education for any class in the community or insist upon forcing it by state machinery on all classes. In all this we confound distinct things and show ourselves irrational in the last degree."

This paper was discussed by Rev. S. D. McConnell, D.D., Rev. William I. Nichols and Mr. Hugo Bilgram.

Dr. McConnell said:—"With the latter part of the paper I am in almost entire accord. With the fundamental thesis, that the ethical faculty in man is a faculty which has been developed in the course of ages by the interaction of individual human beings upon each other in society, I am

not sure that I agree. That the ethical faculty has been produced in this way, that it has no sanction except what comes from that source, the recollection of utilities in the past—is this true? I, for myself, do not think it is true. I believe right here is an area in which evolutionists have unadvisedly set up their flag. The attempt to express all the phenomena of conscience (another way of saying ethics) in terms of social order is as essentially unscientific as it would be to attempt to express intellectual processes in terms of physics. That they are very intimately joined together, that they act and react upon each other, is beyond all question. The expression of the intellectual faculty is conditioned upon the physical nature; the expression of the ethical faculty is conditioned upon the social order. Those who are unable to conceive of the mind as an entity distinguishable from the body are the same persons who cannot conceive of the ethical faculty as separate from the social order. It has been said, there is nothing in the intellect which was not previously in the senses, except the intellect itself. It might with equal truth be said, there is nothing in the ethical faculty which was not in the social order, except the faculty itself. It is true that the action and the reaction of the ethical faculty upon the social organism has to an enormous extent modified them both, but the thing which cannot be explained in terms of the social organism is the faculty itself. The weakness of the theory is the impossibility of establishing it. I believe it is possible to show the absolute independence in function of the ethical faculty from the social organism, as Mr. Fiske has shown the absolute independence in function of the understanding from the brain. They move in correlated lines, but that the relation of cause and effect subsists between them I do not believe.

“To refer conscience to social progress as a cause is to empty it of all binding force. The practical objection to the whole way of thinking upon which this paper is based is that it provides no sufficient motive. If the distinction

between right and wrong is one which rests ultimately on human experience and has no sanction except the good of society, then I am constrained to feel toward society as did another about posterity: 'What has posterity ever done for me, that I should do for posterity?' If the sanctions of the conscience are to be sought for solely in social experience and in the good or evil which will flow from my actions to the social order, that will serve me very well so long as I need neither motive nor restraint.

"I was deeply interested in the distinction between integrity and utility which the essayist made, keeping himself to the etymological force of the words. But he drew therefrom what seems to me a false conclusion, that wherever conflict arises utility must go to the wall, because the man's sense of integrity, of wholeness, will compel him to stand up for his integrity at the sacrifice of utility. But utility always masquerades as integrity. The distinction which is drawn is not valid outside of the closet in every-day life.

"It is more true that social progress is due to ethics than the reverse. I was deeply interested in the essayist's treatment of the continuity of moral evil; he does not expect that evil will disappear from the world.

"I could not help thinking that there was a confusion in the argument which so clear-sighted a man would not have fallen into but for his, as it seems to me, false premises. If there is no sanction and no ground for ethical faculty or rule except in social progress, the stream can never rise higher than its fount. The vice of this whole way of thinking seems to me to be that students of ethics are not compelled to deal with ethical problems in the concrete, but only in the abstract. The fundamental thesis seems to me without motive power. This conception of ethics might produce a Plato, or perhaps a John the Baptist; it could not produce a St. Paul, and a Sister of Charity is a fool in the presence of it.

"But ethical progress has always outrun the material or social progress of the world. The moral progress of the

century now drawing to a close has been five-fold as great as either the physical or material progress. The moral judgment of a gallery god at a theatre in Philadelphia to-night is a more accurate moral judgment than that of many a philosopher of the last century ; an accurate ethical standard has been generally diffused."

He was followed by Rev. William I. Nichols, who said :

"Society exists not for itself alone, but also exists for the individual, and in that sense we may say that morality is the result of social progress. It seems to me that the keynote of the address is that social progress involves cost, and we cannot have anything without paying for it, I think that that law which goes through all society applies also in the matter of civilization, and with knowledge there does come increase of evil. I agree with the essayist again that we cannot expect the elimination of evil or suffering from the world ; but we can make indefinite progress.

"Then it was said by the last speaker that moral progress has been far greater than social progress. I understand that there has been vast progress in morality. Still, I feel that we who attempt to be leaders of morality ought to feel put to shame by those great men who have been leaders in the material progress of the world ; the relative improvement in the moral standard has been far less than could be expected.

"I agree with the address throughout except, perhaps, as to the matter of immigration. The essayist seemed to think that each nation ought to bear the burden of its own evil. I feel that we cannot shut ourselves up and feel that we are simply going to enjoy ourselves in this nice island of a Continent. I believe we have to be ready to accept as a price of our progressive happiness here, this cost. I do not believe the evils in the nation can be attributed to the immigrants ; they come here and find the evils that cause them to be dangerous. We should take away from them the dangerous weapon of strong drink that makes them a

menace to society. I believe this is part of our mission, to be uplifters of those who come to us.

"No people have a right to live in luxury in one part of a city or country, and let the wretched go their miserable way. While I agree with the suggestions of the essayist and believe them to be excellent, I think he fell just short of the highest and best remedy. This remedy is the expression of a Christian spirit, that those who are strong ought to be willing to bear the infirmities of the weak. We are all members one of another, I believe we shall go on making indefinite progress in proportion as we make men believe this.

"Time was when the strongest men physically were kings and rulers. No longer do we gain by physical superiority, but by mental power. But this does not give us the right to use whatever privileges we have acquired to the injury of others. Nothing is ours to keep; all things are ours only to elevate mankind. We are always compelled to come back to those principles set forth so sweetly and beautifully in the ethics of the New Testament; these are the principles that make for the moral regeneration of the universe."

SEVENTEENTH SESSION.

The Seventeenth Scientific Session of the Academy was held in Philadelphia on Thursday, January 12, 1893, at the Drexel Institute, at 8 P. M.

The secretary announced that the following papers had been submitted to the Academy since its last session:

134. By Ellis Paxson Oberholtzer, Norristown, Pa.: *Home Rule for our American Cities.*

135. By E. V. Robinson, Schoolcraft, Mich.: *The Nature of the Federal State.*

136. By L. S. Merriam, Baltimore: *The Theory of Final Utility in its Relation to Money and the Standard of Deferred Payments.* Printed in the *ANNALS*, January, 1893.

137. By W. Milliet, Berne, Switzerland: *The Alcohol Question in Switzerland.* Printed in the *ANNALS*, January, 1893.

138. By Henry M. Hugunin, Chicago: *Government Annuities for the Aged.*

139. By Geo. Steinson, Astoria, N. Y.: Colonial Communism, Jamestown, 1607-1619 and (140) Colonial Communism, Plymouth, 1620-1627.

141. By Barton A. Ulrich, Chicago: How Should Chicago be Governed?

142. By Hon. A. B. Hepburn, Washington: State and National Bank Circulation. Printed in the current number of the ANNALS.

143. By Hon. Michael D. Harter, Mansfield, O.: American Banking and the Money Supply of the Future. Printed in the current number of the ANNALS.

144. By W. E. C. Wright, Cleveland, O.: A Study of the Southern Mountain Population.

145. By Horace White, New York City: National and State Banks. Printed in the current number of the ANNALS.

Professor E. J. James then introduced Mr. Horace White, editor of the New York *Evening Post*, who read the principal paper of the evening, on "National and State Banks" (No. 145).

Hon. William L. Trenholm, ex-Comptroller of the Currency, was then introduced by the President. He said in substance:

There can be no doubt as to the soundness of the principles set forth in Mr. White's paper. Unfortunately, in our country there are a great many people who have not studied the subject, and they are not all of them outside of the two Houses of Congress. It is not to be expected that the representatives of a free people should, as a rule, know very much more on any subject than the average of their constituents, and therefore, if we find a great many members of both Houses who have failed to study this question we are entitled to consider that this is because in the constituency from which they come there is a decided majority who have themselves not studied it either, and therefore who find it no disadvantage to their own interests in being represented in Congress by those ignorant of the subject.

Now when I said that there were those in Congress who had not studied this question, I did not mean by that to cast a reflection upon any member of that body. We must re-

member that these monetary questions have come up recently. Nearly all the members of Congress in both Houses have obtained their prominence upon other issues. Therefore, while it is an unfortunate thing for the country that it does not come in the way of most of the influential statesmen to investigate the subject fully, it cannot be made a reproach to them for not having done so. But there is one way in which the people can make their representatives study this matter, and that is by taking it up themselves. And if there is any question which touches every man, woman and child in this country more nearly than any other, it is the question as to what sort of money we are going to be dependent upon for carrying on our business, and obtaining the fruits of our labor. The people of the United States are an industrial people. There is no population of equal size in the world in which there are so many actively engaged in industrial pursuits, or so many who are dependent wholly upon those who are thus engaged. Whether it is in manual labor, or labor in directing, or in the application of capital, it is all industrial effort. The vast industrial products of this country must be exchanged and transported; and banks must be managed by which these exchanges and transportations are alone effected. Now that which promotes all this great machinery of industry is the money that is in circulation among the people.

As long as that money is absolutely good in the estimation of those who receive it and pay it out, the whole machine proceeds without jar or creaking. But if there is doubt in the minds of the public, as to whether the dollar they take to-day is going to bring them back as much in value to-morrow or next week as they are giving for it in their labor, or their property, or their products, then there is an obstruction, an interruption to the progress of industry, and as the number of those who have this doubt increases, so do the points multiply at which friction arises, and a retarding of the whole industrial machinery results.

It has been fortunate that during the time covered by the experience of most of those who are now living and carrying on this great industrial machine that the money that we have had has been all good money. It is true that up to 1879 the greenback and the National bank-note was not worth as much as gold coin and the gold notes of the country, because there was at that time a depreciation of the paper currency. It was not felt, however, as a very serious inconvenience among the people at large, because there was a general confidence that it only required a certain amount of time to enable so great and prosperous and intelligent a people as this to bring its currency up to its full intrinsic value in gold; but the process by which that end was accomplished was a costly and tedious one, and between the time that the Resumption Act was passed and the time at which resumption was actually accomplished, all industry was more or less hampered, all credit more or less curtailed; and to use a familiar expression "Times were hard." It was a long, steep hill up which the country had to toil from the low level of a depreciated currency to the high, honest level of a currency equal in value to its nominal gold equivalent.

Now that experience should make us very uneasy as to anything that threatens to disturb the present position of our currency on the gold level. If it should fall again, as it did during the war, we shall have that same tedious hill to climb, because there is a commercial necessity, there is a natural law, stronger than any statutes we ever passed, stronger than the whole of our community, which makes it an absolute necessity that a great commercial nation like this must have its money of the best that is obtainable, or else it must suffer intolerable inconvenience and burdens.

We are in danger of letting down the gold standard, and every man and every woman in this country should, if possible, be made to understand that if this happens it will cost us years of sacrifice, years of toil, years of tribulation to get back to it.

This is considered a dry subject by those who look at it only from a speculative point of view ; but it is a subject of the profoundest interest to those who will once satisfy themselves that the future of what they possess as individuals and families ; the value of what they are going to leave behind them to their children will depend upon the legislation of Congress in respect to this monetary question. A life insurance policy, a pension derived from the Government, an investment in lands, a permanent salary, an annuity under a bequest, may all be reduced in value by inconsiderate and improper legislation. A man who has labored, sacrificed, and stinted himself to leave something to his children must find that that little which he leaves them is greatly reduced in value because of a law passed by Congress to which he gave very little attention at the time.

The money that we use measures the value of everything we do, and everything we possess. If that money is itself of constant value then we know that the dollars that have cost us so many days' labor will save our children a like number of days' labor, or what is equivalent, will supply them with a like amount of the necessities of life. But if by act of Congress, or by the failure of Congress to act, the dollars that we are now toiling for, and are putting into property by which our labor and our sacrifices are measured, hereafter fall to a lower value, then our children will get less, although they may get the same number of dollars. That is the thing that we have to keep in our minds, that is the thing we have to explain to those whom we desire to influence ; that is the thing, that if brought home to every man and every woman will impress itself strongly on their minds. It is not the dollars that we work for, it is the dollar's worth.

Now if you let Congress reduce the value of that dollar you will all be having your labor, your income, your efforts, whatever they may be, professional or otherwise, measured by a false weight, a false value, or measured by false rules, and you will all suffer.

There are men whose situation in life, whose experience in business, whose opportunities are such as to enable them to take advantage of a depreciating currency and become rich, while the rest of the community are becoming poor, but those are not the masses of the community; those are not the farmers, the artisans, the clerks, the hard-working professional men, who have no time for these considerations, who are intent only upon doing their quota of work, and obtaining the recompense for it. They may go on month after month, receiving their pay in a depreciated currency, without knowing it is depreciated and depreciating. The bankers and astute men will know, and they will take measures by which they will indemnify themselves against the depreciation. The people must suffer the losses and bear the burdens, and then when the bottom is reached the hill has to be climbed again.

The experienced can take care of themselves, the masses are those who will be irretrievably injured by Congress; therefore, if we want to prevent this, we must get at the masses, who vote for members of Congress, and urge them not to allow their Representatives to remain ignorant upon so important a subject.

The President said:—The discussion will be continued by Hon. Michael D. Harter, of Ohio.

Mr. Harter spoke, in substance, as follows:—* In regard to most of the things that have been said I sympathize very closely indeed with the principal speaker of the evening. It could scarcely be otherwise, from the fact that I have been, in many ways, a kind of humble disciple of Mr. White since the year 1872, and yet I cannot help feeling, as a practical banker, that possibly another course is easier of adoption, would appeal more strongly to the country to-day, and can be rendered more quickly effectual.

The great difficulty in dealing with a question like this in practical legislation is that, owing to the composition of Congress, and it is no reflection upon that body, made up,

* Compare Mr. Harter's paper in the current number of the ANNALS.

as it is, almost exclusively of professional men, with a sprinkling only of business men, this kind of subject cannot be approached, and the dictates of logic followed, as they might be followed, either in an assembly made up of philosophers and students of this subject, or in a bank parlor, filled with men who had had many years of practical and theoretical experience in this branch of business.

You discover the kind of ignorance referred to in the most unexpected quarters. For instance, just at this moment in the minds of most people the vital question is how shall the purchase of silver with the public credit be quickly stopped? If you have followed the utterances of distinguished public men you have probably observed that in speaking of the difficulty of repealing such portions of the Sherman act as provide for the purchase of silver bullion, they invariably wind up their remarks by saying it would be a contraction measure, and so far no substitute has been provided for it.

Now so long as it is impossible for the leading legislators of the country to understand how the stoppage of silver purchases at this time would become an inflation measure of the most wholesome character rather than one of contraction, we see the practical difficulties which lie in the path of the wisest action.

Therefore, we come to the conclusion that that which is nearest at hand should be adopted, provided there are no great objections to it. In this country, and in the world at large, there are several systems of banking. The one outlined by Mr. White is almost identical with that of our neighbors in Canada, and in speaking of this it would only be a eulogy, perhaps, on the system recommended by Mr. White, to say that the system in our sister country has been a very successful one indeed.

The French system is under the immediate control of the Government in a way which is not practicable in a country so extended as ours, where legislative action is so extremely slow, when it is most necessary it should be speedy. Hence any system of banking which we may adopt for general use,

must not depend for its safety on anything important or essential which implies prompt action by Congress. You have an example of it just now. The people, those in business life at any rate, consider that the present course of buying a large quantity of silver bullion every month, which we do not need, is tending towards bankruptcy, towards a crisis, towards commercial distress, towards disaster in business circles and disaster in every home, yet you see how slowly Congress moves even under these circumstances. When the men in the country are assured of a crisis, and when they can feel the tremor of the coming earthquake, how impossible it is to induce Congress, under these serious circumstances, to take any quick, prompt action upon this question. Therefore, I say, we must have a banking system, when it is once finally adopted, which will under any circumstances permit of prompt positive relief.

Now I am one of those who believe, to the fullest extent and in the heartiest manner possible, that if we were to provide any facilities for the increase of banking circulation, but made no provision for the increase of money circulating in trade, we should always have enough and the very best kind of money for all purposes. Our goods would be sold, and, as Mr. White says, would bring to the country the best kind of money in the world.

The earlier some action can be taken on the banking system the better, but it seems to me that no headway can be made in Congress until we can point to a banking system as a source from which the circulation of the country can be increased. You must understand in this kind of legislation that we are obliged to meet the conditions as they exist before you can get a great body of men in Congress to favor, continuously at any rate, any kind of wise legislation. You must provide a banking system which does promise to supply the money infallibly when it is needed.

You will remember when we undertook to reduce the Greenback circulation from four hundred millions, at the very

moderate rate of four millions a month, which was done by Secretary McCullough, before we had proceeded eleven months the people of the United States stopped the operation. The result is our progress in that direction produced a reduction of only forty-four millions of dollars. And this point is constantly urged. Therefore, I say it is very essential in this matter that we should make some progress in the direction of a banking system which the country will deem sufficient, and which will go on developing, furnishing the people good money, which the business interests of the country demand.

Now we cannot reach that quicker than by following as closely as may be the system established in 1838 in New York and afterwards copied by all, or nearly all, of the banking systems of the country, because this system has the unlimited confidence of the people of the country. It is very easy to supplement that which we have already in operation, and how shall we do that? I think everybody agrees with me that at this time the question of bank legislation would in no sense be a burning one if a supply of Government bonds were to remain upon which to base the circulation. The question is whether government bonds cannot be supplemented. If they can be, it seems to me that the whole question is solved.

Confessedly if a government bond could be carried on favorable terms in unlimited quantities, there would be no question of the purchase of silver or any artificial methods of increasing the currency.

It seems to me a class of securities adapted to the purpose is right at hand. This country is rich in collateral securities for banking circulation, and competent men can throw such necessary safeguards around them as to remove from them all their danger.

Let me speak, then, of a kind of securities which everybody is more or less familiar with; one that is in all respects as good as those which the Government has issued. Nor would these securities, for the purpose of maintaining

the banking circulation excite prejudice against the national banks. This would break out with ten-fold more force if it were seriously proposed either to increase or continue the debt of the United States in order that bankers might profit by it. It would not suffice to allay the prejudice of the country, if you were to point out that the very low rate of interest put on the United States bonds left no considerable profits to the banks.

The class of bonds I allude to are those of the railway companies; the best securities in existence in the world. I have never been a believer in the idea that the ultimate securities of a bank note should be based upon either gold or silver; the current security, the power to redeem it day by day, and the power of continual redemption which should go on, should be based upon gold, of course. But the ultimate redemption of a bank note ought not to depend upon gold or silver deposited as security for the note, because that becomes the most wasteful kind of security, and the most unprofitable, because it locks up funds which could be profitably employed in the active business of the country. It is not so with the bond bearing interest, if that bond is laid aside for security for circulation, it does not diminish in value or earning power, and therefore it becomes the choicest kind of security. Suppose that this had been the law, can you not judge the future by the past? Since 1865 you have had bank after bank failing and bankruptcy after bankruptcy; under your railroad act you have had reorganization after reorganization, and vast sums have been lost in these enterprises and investments, but if these securities, under such restrictions as this had been adopted from 1863, and had continued down to this day, with the United States as endorsers upon the bank note circulation for the people as holders of this circulation, the people would not have lost a penny.

But there is a step further; we could stop here, but the people represented in Congress are unwilling, they say; we are not content with a national system, we are not content

with a tax law upon the statute books which was not intended for revenue, which was intended to oppress the business interest in the various States, which was intended to give the central Government control over what rightfully belongs to the State Government. This is a potent factor in the arguments used by a majority of the Representatives in Congress ; they are not content to increase the kinds of securities which may be deposited for the security of circulating notes of National Banks. They demand that the tax be taken off from the State Bank circulation. Now the fact is, a majority of these people would, I believe, be content to see a removal of that tax with a condition, and that condition would be that notes of State Banks should be secured in the same manner as those of the National Banks were by law secured. The present House is not willing, and it is not at all probable that in the course of a year or two it will be willing, to have any restriction whatever placed upon the circulation of State Banks. Personally, I do not think that it is a very important matter, but it seems to alarm a great many people through the country. Visions of "red dog," "stump tail," and "shin plaster" circulation disturb the people. I confess I never had this kind of fear. I know it is a well-established principle that the Gresham law is as unavoidable as the law of gravitation ; but it never seemed to me a fair application of the Gresham law to claim that an inferior bank circulation would crowd out a better. It is true if both were legal tender, and that a creditor were obliged to take either that a debtor presented to him, the law would apply with the same force to a more worthless credit which would drive out the other ; but where two currencies are neither legal tender then the operation of the law is naturally reversed, and the better will inevitably drive out the poorer. In other words, I believe to-day, that if I were given permission to open a shop on Chestnut or Fourth Street, and if I were authorized to issue circulating notes signed by myself, under the present conditions, it would not be

a very profitable grant to me. I scarcely know exactly how I should get those notes beyond my doorstep, and if I got them out, I do not know of any way in the world by which I could keep them out and remain in Philadelphia. There is no danger, or not much, that you will ever have a large number of State banks under any circumstances issuing State notes. There are three or four reasons for it, looking at it from the point of view of a banker and business man.

The first is, that very few of the States at this time would cumber themselves when an efficient and popular national system was in existence. I think very few of the States in the Union would pass laws in conformity with the law of the United States, and if they did not, their banks would not be enabled to issue money. The next reason is a very good business reason. It rests on the principle that a large business can be conducted at a smaller expense than a smaller one, and the result of this would be that the taxation of banks organized under a national system would be at a lower rate than any other State could fix upon a State bank if they were to be maintained profitably.

Then, thirdly, the credit of a national bank would be greater than that of a State bank, and the profit on banking, especially in circulation, depends very largely upon credit, and as the credit of the National banks would go arm in arm with the greater profit under the National banking system, it naturally follows that State banks would be discouraged.

There is still another reason, which appeals to me as a banker, and I think this point has occurred to a great many people in the United States, viz., the provision which makes the circulating notes of one bank a legal tender, not to individuals, it is true, but to other banks. And so long as this requirement exists it would secure for the national banks a wider and cheaper circulation, and make redemption much more infrequent, and therefore less expensive, and leave a larger margin of profit.

As a precedent to organizing a good banking system, we ought not to rest until we have established the whole cur-

rency system of the United States upon gold as the sole standard of value, with the determination that the Government when it furnishes the country with a dollar in gold shall aim to put as much gold into it as will sell in the market for a dollar. You will provide silver money and subsidiary coin intended for circulation, and paper money as well, which at all times must be redeemable in gold, and without any interest, cost or expense to the people.

I really believe that were gold a standard firmly established it would not be necessary to have any bank circulation. I do not believe that a bank note circulation would be an absolute necessity. I believe if you were to once establish the principle that gold was the sole standard of value in the United States, and that it would always be kept so, that the capital of the world in the shape of gold would always flow to us, and we should never reach a period when for any length of time any intelligent man could say there was a deficiency of circulating money in the United States.

The President :—"Mr. Walker, member of the House Committee on Banking, is present and we will be glad to hear from him."

Mr. Walker said :—I am rather late in rising to make any extended remarks, but I may say that I believe, as it is sometimes said, "That it is darkest just before day," that before the expiration of 1893, Congress will have settled this currency and coinage question, and settled it upon the lines indicated by the first speaker here to-night.*

A motion was then made that the thanks of the Academy be extended to Messrs. White, Harter and Trenholm for their able and instructive addresses which was agreed to.

A vote of thanks was also extended to the Managers of the Drexel Institute for the use of the hall on this occasion.

* See Mr. Walker's paper, "The Banking System—Old and New," in the current issue of the ANNALS.

PERSONAL NOTES.

AMERICA.

Amherst.—Anson Daniel Morse, who was last year elected to the chair of History in Amherst College, was born August 13, 1846, in Cambridge, Lamville County, Vermont. His preparation for college was obtained at the Union School of St. Albans, Vermont, and at Johnson Academy, Vermont. In 1866, he entered Amherst College, from which institution he was graduated 1871, with the degree of A. B. The year following graduation was spent abroad, mostly at Florence and Rome. From 1872 to 1875 he taught in Williston Academy, Easthampton, Massachusetts, receiving in the meantime, in 1874, an A. M. from his *alma mater*. The year 1875-76 was spent studying at Heidelberg, Germany. Then he accepted the position of Instructor of Political Economy in Amherst College. In 1877-78 his position was that of Professor of Political Economy and Instructor in History; from 1878 to 1892 he served as Professor of History and Political Economy. In 1892 his position was changed to the Professorship of History.

Professor Morse is a member of the American Academy of Political and Social Science, and in 1890 was elected by the Academy to the position of Councilor. He is a member of the American Historical Association, and the American Economic Association, in which body also he has held the position of Councilor.

The published works of Professor Morse are :

"*The Increase of State Control and its Causes*," *The Citizen*, May, 1886.

"*The Political Influence of Andrew Jackson*," *Political Science Quarterly*, June, 1886.

"*The Cause of Secession*," *Political Science Quarterly*, September, 1887.

"*Equality in Taxation—Commercial Union With Canada*," Contributed to "*The National Revenue*," 1888.

"*Preparation for Citizenship at Amherst College*," *Education*, December, 1888.

"*The Commercial Relations of American Countries*," *The Chautauquan*, March, 1889.

"*Alexander Hamilton*," *Political Science Quarterly*, March, 1890.

"*The Place of Party in the Political System*," *ANNALS OF THE AMERICAN ACADEMY*, November, 1891.

"*The Democratic Party*," Political Science Quarterly, December, 1891.

"*The Republican Party*," Political Science Quarterly, September, 1892.

Beloit College.—Professor Aaron Lucius Chapin, of Beloit College, died at Beloit, Wis., July 22, 1892. He was born at Hartford, Conn., February 6, 1817. He entered Yale College, taking the degree of A. B. in 1837, and then studied at Union Theological Seminary preparatory to entering the ministry. He completed his course there in 1842, and two years later accepted a call to the First Presbyterian Church of Milwaukee, Wis. This pastorate was held until 1849, when he was appointed President of Beloit College. In 1853 he was made Professor of History and Civil Polity in the same institution. He resigned the presidency in 1886, but continued to fulfill the duties of his professorship until the time of his death. Professor Chapin received the honorary degree of D. D. from Williams College in 1853, and that of LL. D. from the Regents of the University of the State of New York in 1882. He was a member of the Political Economy Club of New York and of the Wisconsin Academy of Sciences, Arts and Letters, holding the presidency of the latter society from 1878 to 1881. Besides many contributions to the *Chicago Dial*, he has published the following works:

"*Recast of Wayland's Elements of Political Economy*." New York, 1878.

"*First Principles of Political Economy*." New York, 1879.

Articles in "Johnson's Cyclopædia," as associate editor, on political economy and related subjects.

Professor Robert Coit Chapin succeeds to the chair left vacant by his father's death. He was born at Beloit, Wis., January 4, 1863. After a preparatory course at the Beloit High School, he entered Beloit College in 1881, graduating in 1885. He received the degree of A. M. from that institution in 1888. In 1887 he became a student at the Yale Divinity School, taking the degree of B. D. there in 1890. His theological course embraced extra work in the field of history and economics, and after graduating from the Divinity School he accepted an appointment as Professor of History and Instructor in Modern Languages at Drury College, Springfield, Mo., a position which he held until called to the chair at Beloit. Professor Chapin is a member of the Wisconsin State Historical Society.

Nebraska State University.—Howard Walter Caldwell, appointed Professor of History in the Nebraska State University at the beginning of the present academic year, was born August 26, 1858, at Bryan,

Williams Co., Ohio. He entered the Nebraska State University at Lincoln in September, 1874, taking the degree of Ph. B. in June, 1880. The same year he became Principal of the High School at Geneva, Neb., and the following season, 1881-82, held a like position at Lincoln. During 1882-83 he studied at Johns Hopkins University, Baltimore. He was Instructor in History in Nebraska State University from 1883 to 1887, when he was made Adjunct Professor of History; then in 1891 Associate Professor of American History and Civics, and in the present year full Professor. He has been Secretary of the State Historical Society since 1890; is a member of the American Historical Association and of the American Economic Association.

Professor Caldwell has published the following works:

"*History of the University of Nebraska.*" Reports and Transactions Nebraska State Historical Society. Vol. III.

"*History in American Colleges.*" Report of State Superintendent and Educational Journal. 1890.

In preparation: "*Methods of Teaching History,*" to appear in Journal of Education, 1893; and "*History of Education in Nebraska,*" will appear as a monograph in the Educational Series.

He is editor of "Reports and Transactions of Nebraska State Historical Society."

University of Chicago.—Professor Henry Pratt Judson has accepted the Professorship of Political Science and Constitutional History in the University of Chicago. He was born at Jamestown, New York, December 20, 1849, and graduated from Williams College in 1870. Immediately after graduation he was appointed to the position of Instructor in Classics and History, and Principal in the High School of Troy, N. Y. In 1885 he resigned this position to take the chair of History in the University of Minnesota, where he remained until called to Chicago in 1892. Professor Judson received the degree of A. M. from Williams College in 1883. He is a member of the American Historical Association and the American Academy of Political and Social Science. Besides contributing to periodicals, he has published the following works:

"*Allen and Greenough's Cæsar's Gallic War*" (as joint editor). 1885.

"*Cæsar's Army.*"

"*Troy Citizen's Corps*" (a study in local history). 1885.

Professor Edouard Hermann v. Holst, who has accepted the position of Head Professor of the Department of History in the University of Chicago, was born at Fellin, in the province of Livonia, Russia, June 19, 1841. Livonia is a portion of the district conquered by the German Order, and was colonized by Germans, but

was ceded to Russia in 1721. Professor v. Holst's birthplace is just west of Dorpat, and some two hundred miles southwest of St. Petersburg. The son of a Lutheran minister, a German by descent, he received his early education at a gymnasium in his native town, and in the spring of 1860 entered the University of Dorpat. This he left in 1863 to continue his work at Heidelberg, where Häusser was lecturing at that time. Here he received the degree of Doctor of Philosophy in 1865. In the summer of 1866 he went to St. Petersburg, as a teacher, having previously begun by travel in France, Italy and Algiers, to develop the broad cosmopolitan spirit which gives his university instruction a peculiar value. During a second visit to southern France, in 1867, his publication of a political pamphlet* on the significance of the attempt made in 1866 by a Russian revolutionist upon the life of the Czar prevented his return to St. Petersburg. In July of 1867 v. Holst sailed for the United States, where he had to make his way in the face of extreme poverty. He occupied himself in teaching and became assistant editor of Schem's "*Deutsch-Amerikanisches Conversations-Lexicon*," acting at the same time as correspondent of the *Kölnische Zeitung*. With the encouragement of his friend, the eminent historian v. Sybel, he began the study of our government and history, which resulted in his great work upon the constitutional development of the United States. After five years' residence in this country v. Holst accepted a call in 1872 to the newly reorganized University of Strassburg, as Assistant (extraordinary) Professor of History. In 1874 he was called to the University of Freiburg im Br. as full Professor, a position he occupied when invited to undertake the work in Chicago. In 1878-79 Professor v. Holst was delegated by the Prussian Academy of Sciences to make further historical investigations in the United States, having placed at his disposal a considerable sum of money for this purpose. On this occasion he was able to visit the Southern States and the districts beyond the Mississippi for the first time.

Professor v. Holst is not wanting in political experience. In 1882 he was summoned by the Grand Duke of Baden to membership in the upper house of the Diet, a position he later held as representative of the University. His legislative duties occupied a very considerable portion of his time during the sessions of the legislature.

Professor v. Holst lectured in Freiburg upon the History of the French Revolution, of the Napoleonic Period and of Europe since 1815, as well as that of Prussia. He possesses great powers as a lecturer and will, with his broad, living knowledge of European conditions,

* "*Das Attentat vom 10 April in seiner Bedeutung für die culturgeschichtliche Entwicklung Russlands.*"

awaken in the American students a new interest in forms of modern development outside of the United States.

Professor v. Holst has for years past directed almost his entire attention to his extended work "*Verfassungsgeschichte der Vereinigten Staaten seit der Administration Jacksons*,"* the first volume of which appeared in 1873, and which is now complete, comprising in the English translation seven volumes and covering the period from the election of Jackson to the outbreak of the war. This work has been carried on, it ought to be said, far away from any great collection of materials and in spite of prolonged and distressing ill-health, which might well have driven all thoughts of continuing his laborious undertaking from the mind of a less determined author. In addition to this Professor v. Holst has published "*Staatsrecht der Vereinigten Staaten von Am.*" (translated) in Marquadsen's "*Handbuch der Oeffentlichen Rechte*," 1885, and the volume on "Calhoun" in the American Statesman Series.

GERMANY.

Munich.—Karl Konrad Ferdinand Maria von Amira, of the University of Freiburg in Baden, has been elected Professor of Civil Law, Public Law, Bavarian Law and the History of Law and of the German Empire at the University of Munich. Professor v. Amira was born at Aschaffenburg, in Lower Franconia, Bavaria, and received his early education at Munich in the common schools and at Wilhelm's Gymnasium. His higher education was obtained at the University of Munich, from which he received, 1873, the degree of Doctor of Jurisprudence. In 1874-75 he was instructor (*Privatdocent*) at the University of Munich; since then he has been Professor (*Ordentlich*) of Church Law, German Law, and International Law, and Professor of the Encyclopædia of Jurisprudence at the University of Freiburg in Baden.

Prof. v. Amira has been since 1887 a member *Ordinarius regie scientiarum Upsalensis*, and in 1892 became a corresponding member of the Royal Bavarian Academy of Sciences, of Munich.

Besides several critical essays on the history of law, which appeared in journals, especially the *Göttingische Gelehrte Anzeigen*, 1881-1892, he has published the following works:

1873. "*Die Formen der Verfestung in den oberbayerischen Rechtsquellen des 14. Jahrhunderts.*" (Oberbayer. Archiv, Band XXXII.)

1874. "*Das altnorwegische Vollstreckungsverfahren.*" München.

1874. "*Erbenfolge und Verwandtschaftsgliederung nach den altniederdeutschen Rechten.*" München.

*The first volume is introductory and appears in Germany as "*Verfassung und Demokratie der Ver. Staaten von Am.*"

1876. "*Ueber Zweck und Mittel der germanischen Rechtsgeschichte.*" München.

1877. "*Die Anfänge des normannischen Rechts.*" (Histor. Zeitschrift, Neue Folge, Bd. III.)

1875. "*Die Vormundschaft im deutschen Recht des Mittelalters.*" (Kritische Vierteljahrsschrift für Gesetzgebung, etc., Bd. XVII.)

1876. "*Zur salfränkischen Eideshilfe.*" (Germania, Zschr. für deutsch. Alterthum, Bd. XX.)

1882. "*Nordgermanisches Obligationsrecht.*" Band I. (Altschwedisches Obligationsrecht.) Leipzig.

1883. "*Das Endinger Judenspiel, zum ersten Mal herausgegeben.*" Halle.

1888. "*Zur Textgeschichte des Frostupingsbók.*" (Germania, Bd. XXXII.)

1889. "*Recht*" (im Grundriss der german. Philologie von H. Paul, Bd. II b, Seite 35-200).

1890. "*Investitur des Kanzlers.*" (Mittheilungen des Instituts für österreich. Geschichtsforschung, Bd. XI.)

1891. "*Nordgermanisches Obligationsrecht.*" Band II. Westnordisches Obligationsrecht.) 1. Hälfte.

1891. "*Thierstrafen und Thierprocesse.*" Innsbruck (auch in Mittheil. des Instituts f. österr. Geschichtsforschung, Bd. XII.)

BOOK DEPARTMENT.

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REVIEWS.

HENRY GEORGE VS. HERBERT SPENCER.

A Perplexed Philosopher, being an examination of Mr. Herbert Spencer's various utterances on the Land Question, with some incidental reference to his Synthetic Philosophy. By HENRY GEORGE. Pp. 319. New York: Charles L. Webster & Co. 1892.

Social Statics, abridged and revised; together with the Man versus the State. By HERBERT SPENCER. Pp. 451. New York: D. Appleton & Co. 1892.

In his latest polemic Mr. George makes so bold as to accuse the "Synthetic Philosopher" of moral cowardice. Under the three general captions, the "Declaration," "Repudiation" and "Recantation," is graphically related the history of Mr. Spencer's opinions on land ownership. In "Social Statics" (edition of 1850) he set forth that all men have "equal rights to the use of this world;" that private ownership of land is "an infringement" of those rights; and that society, after giving compensation to owners, should resume the ownership. In 1878, Mr. George, in "Progress and Poverty," cited Mr. Spencer's authority in support of his contention. But in 1882, finding his name coupled with Mr. George's, and condemned for advancing a dangerous doctrine, he disclaimed all adherence to such "visionary" proposals in a letter to the *St. James' Gazette*; saying that he had already withdrawn "Social Statics" from English circulation and interdicted translations, as studies subsequent to that work had caused him to change his ideas as to the practicability of land nationalization. Again, in 1884, in "Man versus the State" and in 1889, in

letters to the *Times*, he took occasion to reject Mr. George's theories; and in 1891, in "Justice," he set forth his modified views on Land. Meanwhile, all this time "Social Statics," the sale of which had been forbidden in England, was being printed and sold here in this country. Mr. Spencer brought out an "expurgated" edition in 1892.

Mr. George tells this story of the trials of the synthetic but "perplexed philosopher" in his usual trenchant and taking style. He guards himself admirably from side and rear attacks by quoting in full everything Mr. Spencer has ever written on land, the chapters in "Social Statics" (1850) and "Justice," and the letters to London papers. But he allows his anger to carry him too far. His language too often is vituperative; he sneers at the philosopher's method of compiling his synthetic philosophy; and he even drags in Mr. Spencer's pleasures and pastimes as proofs of his allegations—all of which are unworthy of a dignified book and of Mr. George. Again, all his comments on the evolutionary philosophy are lugged in, and only expose him to attack where he is not prepared to defend himself.

He very properly, however, and very adroitly rings the changes upon the stoppage of the sale of "Social Statics" in England years ago for fear it would be used in the dissemination of "communistic" ideas, and its continued sale in America, where the people are supposedly equally unsophisticated. This strange inadvertence Mr. George explains on the hypothesis that Mr. Spencer did not want to jeopardize his reputation in England, but was unwilling to forego the large royalty received from his American publishers.

But, in spite of Mr. George's circumstantial evidence, it is to be doubted whether the man who has constantly waged war against the dominant religious, philosophical and political theories and parties is afraid of his conclusions in this one lone instance.

When Mr. Spencer brought himself to revising "Social Statics," he evidently did it in some petulance. Instead of revising his chapters on land and property as he does the remaining ones of the book, he simply throws them out. His excisions were so unsparing that, to make a more sizable and salable book, he had to incorporate his well-known brochure, "The Man versus the State." His readers will greatly prefer the old version. He has condensed too much. One can see no reason why his modified views on land were not included in this volume instead of referring the reader elsewhere. Mr. Spencer has weighty and worthy reasons for thinking it impossible to obtain pure equity in land ownership, even granting, as he does, that present arrangements are traceable to "unscrupulous violence." He has always differed from Mr. George as to compensation of land-owners.

If for nothing else, they should have been given to give completeness to his little treatise on absolute ethics.

Yet inadvertently he has affirmed all that he wrote in 1850. He begins his chapter on "Socialism" with "all men have equal rights to the use of the earth" just as they have to air, light and water; and he admits that "land nationalization" is "equitable in the abstract." We find ourselves, therefore, in somewhat of a quandary when he tells us that "the moral law is the law of the perfect man," that it ignores present conditions, and "prescribes the conduct of an ideal humanity," which it must be man's duty ever to approximate, and at the same time condemns Mr. George's endeavors to attain to that state.

FRANK I. HERRIOTT.

Baltimore.

TWO BOOKS ON INSURANCE FOR THE POOR.

Insurance and Saving. A Report on the Existing Opportunities for Working Class Thrift, with an introduction on the Poor Law as an Obstacle to Thrift and Voluntary Insurance. Charity Organization Series, Vol. I. Pp. 117. London: Swan, Sonnenschein & Co. 1892.

The State and Pensions in Old Age. By J. A. SPENDER, with an Introduction by ARTHUR H. D. ACLAND, M.P. Pp. 161. London: Swan, Sonnenschein & Co. 1892.

To those familiar with the work of the Charity Organization Society, but little need to be said of this volume. It consists of a report of a special committee of the Society on this subject, with the report referred to in the title prefixed. The avowed object of the Society in issuing a series of volumes rather than the previous separate reports is to add dignity to its publications, and win for them a wider recognition. The portion on the Poor Law is now about half a century old, and is largely based on Eden's "State of the Poor" (1797). With the facts taken from Eden, are composed the facts of the first three years following the Reform of the Poor Law in 1834. The conclusions reached are such as are matters of universal belief to-day, namely, that an indiscriminate system of outdoor relief discourages thrift and saving.

The remaining portion of the work gives only a fair presentation of the work of the friendly societies and trade unions, as means of encouraging thrift and of relieving distress. It is shown that all the existing organizations, State and voluntary, fall far short of the desired result.

The most interesting portion of the report is that which shows that all "benefit" insurance is expensive, because of the enormous outlay required for the frequent collections and the mode in which they must be made. This method of collection is rendered absolutely necessary because of the ignorance of the class of people involved. It is shown that this insurance is doing a tremendous service for the laboring man, and that it is the most economical, considering the intelligence and will power of the persons concerned.

Of this conclusion I think one may fairly say it is a capital illustration of how the ideal system of the old economy fails to meet modern needs. We have to do here with a class of people of whom it is perfectly unreasonable to suppose that they will either seek or find the cheapest insurance possible.

In "The State and Pensions in Old Age," Mr. Spender gives us a very clear statement of the number and material condition of the aged poor. After considering carefully their resources, both from their own earnings and savings, and from all sources of charity, public and private, he arrives at a conclusion that must be startling to the average man. His conclusion is, that as human nature is at present, and as society and industry are organized, the laborer does not, cannot, and cannot reasonably be expected, to provide for his own support after the age of sixty-five. It is, indeed, a striking fact that, according to the best estimates and the best available statistics, about one-fourth of all persons in England above sixty-five years of age are in receipt of some charitable aid, public or private, and that many more, in all decency, should be in receipt of such aid. The author emphasizes the fact that it is poverty and not pauperism alone which he seeks to remedy. Full acknowledgment is given by Mr. Spender to all that the laborers themselves, individually and through all sorts of organizations, such as friendly societies, trade unions, building societies, etc., are doing, and also for what the State is doing through post-office savings banks and other means; but he finds that all of these are wholly inadequate. He then gives us the best description I know of in English of the schemes of State insurance in Denmark and Germany. In regard to the German system, I think his readers will agree with him that it is an experiment in Germany, and that it involves an amount of local self-government on the one hand, and of police interference on the other such as to make it absolutely unworkable in England. Largely on the same ground the author finds the various schemes proposed in France, Italy and England impossible.

The author maintains that the amount of *unavoidable* poverty in old age has never been realized, and, further, shows that the tendency

of the times, which requires quickness rather than skill, is to lower the age at which a laborer can expect to earn full wages, and consequently to increase the number of years for which support must be provided. His conclusions are that some public relief is necessary, and that no scheme based on compulsory contributions of the insured or employer could be worked in England. He naturally, therefore, advocates a universal State pension to every person above the age of sixty-five of say five shillings per week. This, he estimates, would, if rich and poor alike drew their pensions, mean an increase of national burdens for the United Kingdom of about nineteen millions sterling. This proposition certainly has the merit of simplicity and cheapness of administration, and avoids all prying into character and past record.

But what shall we say of the principle involved? It certainly is the boldest proposition yet made on the subject of pensions. No doubt the economists of Herbert Spencer's way of thinking will denounce it as "paternalism" and as "Socialism." But it is a condition and not a theory with which England is confronted. It is highly probable that, as soon as the actual poverty of the aged is brought home to the popular conscience, something will be done, and that, too, irrespective of all preconceived theories of government. The Royal Commission on the aged poor for which Mr. Spender expresses a desire has since been appointed. We may await with interest the results of that inquiry; and meantime may take comfort in the thought that, when England acts, it will be from a conservative, practical, and not from a *doctrinaire* standpoint.

JOHN H. GRAY.

Northwestern University.

The Eve of the French Revolution. By EDWARD J. LOWELL, author of "The Hessians and the other German Auxiliaries of Great Britain in the Revolutionary War." Pp. viii, 408. Boston: Houghton, Mifflin & Co., 1892.

There is a laudable tendency to-day to look more carefully at the transitional and preparatory periods of history. This is the outcome of a truer and more fruitful view of the function of historical study as to the discovery and correlation of causes and effects. It is rare enough that a scholarly work upon European history is produced in the United States. Mr. Lowell has, however, given us a judicious and careful treatment of a difficult and intricate subject. To write an account of the causes of the French Revolution is to picture a whole, complex civilization. The attempt to clear up even simple points soon leads the investigator to realize the obscurity of a period charac-

terized by its want of uniformity, and the wide divergence between the letter of the law and its actual application. One is forced to confine himself, as Mr. Lowell has done, to general statements. Any attempt to enumerate exceptions would be an endless task.

Mr. Lowell has given the English reader a general outline of the *moments* of French civilization at the outbreak of the Revolution. Another work like that of De Tocqueville, the result of twenty years' preparation, is not to be expected. The author avoids, however, the enumeration of perplexing details, which serve, as in Taine's work, to confuse rather than clarify our ideas. No attempt is made to treat the historical events during the reign of Louis XVI., a period so rich in illustrations of the prevailing abuses. For when the attempt was made to throw off the bad habits of the *Ancien régime*, it was first realized how inveterate and deep-seated these habits were. Mr. Lowell, it is to be hoped, may sometime find himself in a position to supplement the present work by a history of France for 1774-1789.

It is unfortunate that Mr. Lowell's "Index of Editions Cited," which furnishes us with a much-needed bibliography, should not have been more complete. We miss such works as Lomenie's "*Mirabeaus*," Bouchard's "*Système financier de l'ancien régime*," Aubertin's "*L'esprit public pendant la 18ième Siècle*," and Augeard's "*Memoires*."

J. H. R.

Complete Guide to the World's Twenty-Nine Metal Monetary Systems.

By JOHN HENRY NORMAN, Member of the London Chamber of Commerce. Pp. xx, 328. New York: G. P. Putnam's Sons.

It is rather difficult at the outset to say what this work does *not* treat of. From its title one might expect a mere comparison of the actual monetary systems of different nations, with a brief history of their development. But, as the title page indicates, the author aims in addition to expound "foreign and colonial exchanges of gold, silver and inconvertible paper on the unit of weight system, with aids to the construction of the science of money." The plan of the book is defective, first, because the material is not welded together in any definite logical shape; and second, because the author has attempted to treat subjects broad enough to fill half a dozen volumes. It is a book such as might be expected from a business man, who with a clear grasp on each separate topic, has no clearly conceived notion of the dependence of the various parts. Of practical value may be cited the proposed method of calculating exchange by

comparing different money-units estimated by their weight in pure metal in one tabular system, rather than the more complex method of calculation where two different units of weight are first employed, and then compared to effect the calculation of the par. The statistical tables will prove also of practical assistance in the calculation of exchange. But beyond this there is little to be said in favor of the book. As an explanation of exchange it is not to be compared to Goschen's "Theory of the Foreign Exchanges." As regards the expression of opinion on monetary theory in general, the criticisms of Jevons, Walker and others, the frequent animadversions on bi-metallism and the theory of value, the work is comparatively worthless. Whatever service the book may render will be along the line of statistical tables in the practical problems of comparing different currencies.

W. M. D.

Princeton.

Ordinamento degli Stati Liberi fuori d'Europa. Del DOTT. FRANCESCO RACIOPPI. Manuali Hoepli, CXII-CXIII. Pp. 372. Milano: Ulrico Hoepli, 1892.

This is a manual giving, in the most concise form, an abstract of the constitution and an outline of the governmental machinery of all constitutional governments outside of Europe. The list includes the United States, together with each separate State of the Union, all the States of Central and South America, Australia, Africa, Japan, in short it is absolutely complete. A note after each title gives the area, population, population per square kilometer, capital and its population, and the number of counties or other minor divisions of the state in question. The abstracts are admirably written in clear, easy Italian, and the information given seems to be exactly what one would naturally desire on the subject. No comment is indulged in. A previous number in the same series of manuals treats of the European States in like manner, thus completing the subject. It is a matter for regret that no equally good presentation of the subject can be found in English.

H. H. P.

University of Wisconsin.

The German Bundesrath: A Study in Comparative Constitutional Law. By JAMES HARVEY ROBINSON, Ph. D. Publications of the University of Pennsylvania. Political Economy and Public Law Series. Vol. III., No. 1. Pp. 68. Philadelphia, 1891.

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This monograph is in two general respects an important contribution to the literature of political science. It is a careful study of a singularly instructive example of institutional evolution; and it constitutes a scholarly and lucid examination of the character of the body which the author justly regards as legally and historically the "centre and core" of the existing federal government of Germany.

The first of the three sections into which the paper is divided deals with the history of the attempts at national union in Germany since the fall of Napoleon, and particularly with the origin of the essential elements of the Bundesrath. The point of view of the author is the persistence of the monarchical principle. With the exception of the free cities, the States which compose the Empire are monarchies, as, of course, were the members of the preceding Federations of 1815 and 1867. "According to the theory of German constitutional law, the whole power of the State is vested in the monarch. The various functions of government find their common centre in his person;" though the present conception of the sovereign's authority "no longer includes the idea of unlimited right of self-determination in the exercise of it." But parliamentary government is unknown. The government is the prince and his immediate ministers; and to it belong the initiation and, so to speak, the residuum of power. In exact contrast with the American theory, the people or their representatives occupy a "negative" position. The constitution of the Empire, like the constitutions of its predecessors, is "interpenetrated by the monarchical idea." Yet the Empire is not a monarchy. The Bundesrath and not the Emperor is invested with the attributes of sovereignty; and the Bundesrath, as a body composed of the instructed representatives of the various members of the Empire, derives its leading characteristic in historical sequence from the Plenum, or full session of the Bundestag of the Federation of 1815, through the Bundesrath of the North German Federation.

In the second section, Dr. Robinson has treated the dual nature of the Bundesrath, as seen in its relation to the individual States and in its organization as a part of the constitutional machinery of the Empire. Several interesting topics are here briefly discussed in a very instructive manner. Such is the disputed question, as to whether "the *States* or their monarchs for them," are represented in the Bundesrath; the deliberative function of that body growing out of the flexibility of its "instructions;" and the anomalous position of the chancellor, or chief administrative officer of the Empire, who, by virtue of his office, is at the same time president of the Bundesrath and leading representative in it of Prussia, its most powerful member.

The last section contains an able analysis of the functions of the Bundesrath as an organ of the central government. These are classified as legislative, administrative, and judicial. "The jurisdiction in constitutional questions is not delegated to the courts, but so far as it is provided for at all, it is exercised by the Bundesrath." This jurisdiction not only extends to disputes arising between different members of the union, on appeal of one of the parties; but it includes arbitration "when difficulties of a constitutional character arise between the different factors of the State governments."

The administrative activity of the Bundesrath is of far-reaching significance, and especially the power of "oversight" or of providing remedies for defects in the execution of the imperial laws. But most interesting to the American student is its legislative capacity. This is true not only because the Bundesrath is "pre-eminently a legislative body;" but because, at first glance, its theoretical position in this regard appears to be strangely complex. By the constitution it is given legislative power equal, at least, to that of the Reichstag or representative assembly. Bills may originate in either body, though the Bundesrath is expected to take the lead in proposing measures; and no bill can become a law without its assent. Furthermore, it may enact administrative ordinances without reference to the Reichstag. Nevertheless, it "is not an upper house in the ordinary acceptance of the term." The German System is not a bi-cameral system. In its legislative capacity, as in other respects, the analogue of the Bundesrath is the prince and his cabinet. "The Reichstag alone in the imperial constitution possesses the attributes of a representative, deliberative body." Hence it is that the *sanction* or command which converts the bill into a law binding upon the citizen, is conferred by the Bundesrath and not by the Emperor; though in practice this sanction may not appear as a separate act, but "in conjunction with and indistinguishable from the simple approval of the contents of a bill."

Throughout, Dr. Robinson has given due consideration to the literature of his subject, with special regard for the treatises of Laband, Meyer, and Schulze. His monograph will prove an excellent guide to the American student of the German constitution; and by way of contrast, it will not fail to aid him in gaining a better understanding of the constitution of his own country. Moreover, it will teach him that it is not the English race alone whose institutions are living organisms, the result of centuries of thought, struggle, and compromise.

GEORGE E. HOWARD.

Leland Stanford Junior University.

SOME WORKS ON SOCIAL QUESTIONS.

I. *Man and the State*. Pp. 558. New York: D. Appleton & Co., 1892.

II. *Co-operative Credit Associations in Certain European Countries*.

By EDWARD T. PETERS, United States Government Report, Department of Agriculture. Pp. 117.

III. *Etudes sur les Questions Ouvrières*. Par CHARLES DE QUÉKER, Pp. 637. Brussels: Imprimerie des Institutions de Prévoyance, 1892.

IV. *Mon Utopie*. Par CHARLES SECRÉTAN, University of Lausanne, Pp. 302. Paris: Félix Alcan, 1892.

"Man and State" is a book containing a series of lectures delivered before the Brooklyn Ethical Association during the past year. The range of subjects covers nearly everything of interest to a voter at a national election. As might be expected, the book is not characterized by unity or even excellence. The lectures are designed to popularize science rather than to make original contributions to it. Of course in such a series some lecturers will be unscientific in striving to be popular. Mr. Horr's lecture on "The Republican Party" seems more heavily spiced with journalistic buncombe than a sober Republican would wish. Nor is it plain what Professor Mason thought he was doing for the Land Problem in his gush upon that subject. About half the lectures are admirable, particularly that of Dr. L. G. Janes on "The Problem of City Government," and that of Professor Joseph LeConte on "The Race Problem in the South." Best of all, however, is the first of the series by President E. B. Andrews, on "The Duty of Public Spirit." This subject offered great opportunity for glittering generalities and pious platitudes, possibilities which the author, with the perversity of greatness, has failed to improve. With such a lecture, the book can hardly be a bad investment. The excellent modern fashion of adding suggestions for collateral reading has been followed. After each lecture is an abstract of discussion, often interesting, but showing that even in Brooklyn there are learned men who have yet to learn that brevity is the soul of wit.

In the work on "Co-operative Credit Associations" we have a report made by Mr. Edward T. Peters to the United States Department of Agriculture upon the savings banks and other co-operative credit associations of Germany, Austria-Hungary, Italy and Russia, giving their history, constitution, intention and practical workings. Particular attention is paid to their bearing on agriculture. The work is clear, methodical and presumably accurate. Its value is obvious.

In "*Etudes sur les Questions Ouvrières*," M. Charles de Quéker has given an admirably succinct statement of the legislation of the principal nations of the world on the subject of labor, in other words a résumé of existing state intervention. Each branch of the subject is treated in a separate chapter, thus—accidents, labor contract, sanitary conditions, female and child labor, the working day, etc. Each chapter closes with a detailed examination of the relation and adaptability of this legislation to Belgium. The apparent care and comprehensiveness of this presentation makes it a valuable contribution to the literature on this subject. A long bibliography of the 232 works consulted completes the work.

"*Mon Utopie*," by Charles Secrétan, contains a miscellaneous collection of "Social and Moral Studies," among which short articles in favor of the nationalization of land, female suffrage, religion and family rights figure prominently. The style is often very felicitous and the arguments occasionally novel, but the book hardly contains anything new. It would be hard to write a more readable book, however, on such a variety of subjects, and it will doubtless contribute to the propagation, if not to the deepening, of science. The writer is genial and scientific, a combination not universal.

H. H. P.

University of Wisconsin.

Geschichte des Socialismus und neuern Kommunismus. Von DR. OTTO WARSCHAUER, Professor der Staatswissenschaften an der Technischen Hochschule zu Darmstadt. Erste Abteilung: Saint Simon und der Saint-Simonismus. Pp. x, 106. Leipzig; Gustav Foch, 1892.

This monograph is the first of a series on socialism and communism. The purpose of the series, the author tells us, is to give, as briefly as a clear presentation of the subject will permit, an explanation of the purposes, theories, and system of the socialists and modern communists. The work will not treat of writers now living, and will, moreover, consider only those who have exerted a decided influence on the development of socialism and communism, who have advocated revolutionary social theories, and may be regarded as intellectual founders of a systematic agitation. And the lives and literary activity of even these will be considered only in so far as they have to do with the subject in hand. The author expects to finish his history in ten or twelve parts.

The topics treated in the first part are Saint Simon, his system, and his two most prominent disciples, Bazard and Eufantin. An account of the life, work, and system, of Saint Simon is given first, and followed by a few pages of criticism. The ground of criticism is the

familiar one of the impracticability of Saint Simon's proposals: his suggestions for agrarian reform would do more harm than good; his proposed elevation of the working classes to political influence would simply result in a transfer of power from the nobility and clergy to the industrial class, which would in time become as tyrannical and conservative of abuses as the other classes were. The author approves of some of Saint Simon's suggestions for reform in internal administration.

As to the life of the great socialist, Dr. Warschauer describes it as rich in plans and poor in results; he was a noble by birth, a democrat by conviction, a cosmopolite by education, a spendthrift by inclination, and a beggar by force of circumstances.

The second half of the essay is devoted to Bazard and Enfantin. The familiar details of their lives and work are reviewed and criticised along the usual lines. The author regards Bazard as the intellectual founder of scientific socialism; as the precursor of Louis Blanc in his opposition to free competition, of Lassalle in his views on inheritance, and of Marx and Rodbertus in his desire to substitute property in profits and income for that in land and capital. In the author's opinion Bazard wrote more clearly than his master, but his ideas are just as impracticable.

Enfantin closed his career "a pietistical fool," who made religion a farce, and exposed the doctrine of Saint Simon to the scorn of mankind. "This was the end of a movement which was introduced to abolish the political privileges of nobility and clergy, to transfer to the most prominent representatives of industry and science the management of the affairs of State, to realize the command to love one's neighbor, and to restore Christianity to its original glorious purity."

The author's treatment is clear and as full as his self-imposed limitations permit. His critique is temperate and just, and although the series can hardly be expected to contain anything new, it will be a useful compendium to students of socialism.

D. K.

University of Wisconsin.

Dictionary of Political Economy. Edited by R. H. INGLIS PALGRAVE. First part, "Abatement" to "Bede;" second part, "Beeke" to "Chamberlayne;" third part, "Chamberlen" to "Conciliation;" fourth part, to "Debts." Pp. 512. London: Macmillan & Co., 1891-'92.

Four parts of the "Dictionary of Political Economy" have been issued, extending as far as "Debts." Each part contains 128 pages, and as there are to be twelve or fourteen parts in all, the

size of the work when completed will be about 1900 pages. As the title dictionary indicates, the scope of the work is different from that of cyclopædia. It is on a much smaller scale than the *Handwörterbuch* which is being published in Germany, but the compendious size is, of course, convenient, and in many respects an advantage. The need, at any rate, of having some such work accessible in English is imperative, a result not merely of differences in language, but of those in law, custom and national standpoint as well. Take, for instance, in the work before us such words as *Bland Act*, *Bubble Act*, *Black Death* or such business or legal terms as *Choses in Action*, *Caution*, *Breach of Trust*, *Betterment*, *Brands*, and we see that it includes topics which would hardly be found in any foreign dictionary. But a work of this size will probably be more useful to the student for its explanation of terms and names which are infrequently used or referred to than for its brief articles on subjects of such economic importance as "Capital," or the "Mercantile System." For the adequate discussion of such topics, a work on the scale of the *Handwörterbuch* is required, and we cherish the hope, therefore, that this dictionary may ere long be followed—it need not be displaced—by a comprehensive English encyclopedia of political economy. In the list of contributors to the work now being edited we find the names of Professors Dunbar, Taussig, Seligman, Mayo-Smith, Ely and other American economists. Professor Dunbar has contributed the article on "Carey," Professor Dewey that on "Clay," while Professor Richmond Smith gives an account of the "Census in the United States." Of course, the majority of the contributors are Englishmen. The list contains the familiar names, among others, of Ashley, Bastable, Giffen, Ingram, Keynes, Thorold Rogers, Sidgwick. The brief but admirable account of the different conceptions of "Capital," is by Mr. E. Cannon, who also contributes the article on "Communism." In the discussion of "Bi-metallism" the editor, Mr. Palgrave, writes from the standpoint of the mono-metallists, quoting freely from Jevons, and hardly giving any exposition whatever of the bi-metallic theory. Mr. A. K. Connell contributes an interesting article on the "City." Among the other articles in parts 1, 2 and 3 may be mentioned those on "British Commerce," by Professor Bastable; on the "Clearing System," by R. W. Barnett, and on the "Commercial or Mercantile System," by Professor Nicholson. In part four the various phases and forms of "Co-operation" are discussed by several different contributors. The article on "Commercial and Financial Crises" is unsigned, and the credit of it must therefore be given to the editor, Mr. Palgrave. It is followed by an account of the "Crises of 1857, 1866 and 1890," by Mr. W.

Fowler. The article on "Death Duties" is by Mr. T. H. Elliott, and that on the "Death Rate" by Professor Edgeworth. Professor Thorold Rogers contributes articles on the "Corn Laws" and "Corn Rents;" Dr. J. K. Ingram an article on "Corporation of Arts and Trades or Guilds;" Professor Nicholson discusses "Consumption, Cost of Production and Credit."

J. A. HILL.

University of Pennsylvania.

NOTES.

THE problem of the unemployed of London was investigated last December by a committee which held its meetings in Toynbee Hall. The report of the committee, published in *The Toynbee Record* of January, is signed by seventeen prominent persons, among whom are J. Williams Benn and Sydney Buxton, members of Parliament; George Shipton, of the London Trades' Council; and W. Steadman, F. N. Charrington and Sidney Webb, members of the London County Council. The committee found "the number of men without employment about the docks and ports of the riverside east and south-east of the city" a good deal larger than usual at that time of the year; and this, too, in spite of the fact that the average amount of work paid for by the Joint Committee of the Dock Companies was no less in 1892 than in 1891. This apparent paradox is explained by the fact that the proportion of men in permanent employment has increased, and the fluctuations in the number employed from day to day has diminished. This is the result of a better organization of labor, and promises to put an end to the casual character of dock labor. This is, of course, much to be wished, but the immediate effect of the change is to work great hardship by depriving whole classes of their means of subsistence. The committee believes "the temporary provision of work by local authorities affords no solution of the real problem, and by attracting laborers to the distressed districts may even intensify the evil." The local authorities ought to furnish work, as far as possible; but the employment given should be made test work by means of which the industrious and worthy workmen may be separated out from the "demoralized residuum," in order that they may be helped to permanent employment. The recommendations of the committee for securing this end, and for turning private charity into beneficial channels, indicate the true method of dealing with the unemployed. Local authorities, the Government and the County Council, in supplying work, are recommended to adopt the rules that (1) "any work given should be regarded not only as a relief, but also as a test of fitness for further help"; (2) that employment be restricted to settled inhabitants of the particular district, who have been resident somewhere in the metropolis for at least a year; and (3) that a register be kept containing the address of the applicant's previous employer, the previous occupations of those applying for work, and a report on the conduct of those employed while at work. The committee

further advises that a small voluntary committee, composed of representatives of such bodies as the London County Council, the London Trades' Council, the Charity Organization Society, the London Chamber of Commerce, the Federation of Riverside and Transit Trades, be formed to "collect and classify the statistics obtained by the local authorities, ascertain, by appropriate inquiries, which of the unemployed need to be more permanently assisted, and how this can best be done, and administer whatever funds may be subscribed by the public." The committee condemns the indiscriminate giving of money, meals or lodgings, because such charities inflict "a cruelty upon the inhabitants of these districts and seriously aggravate the disease;" but appeals should be made by the voluntary committee for funds of private charities to supplement, if necessary, the amount to be spent in useful public works by local authorities," and "to aid such men as are manifestly fit to get new occupation in London or elsewhere."

AT THE last session of the Chautauqua Literary and Scientific Circle, the first of the Chautauqua Political Economy Clubs was organized. It is proposed to establish such clubs in communities where a sufficient number can be enlisted to form a working organization, the object of them being to awaken a wider interest in the study of economic and social questions. The director of the movement, Dr. Richard T. Ely, will aid the clubs in organizing, and will assist them in making the debates and discussions of their sessions profitable by sending them subjects for debate and discussion and by offering hints and suggestions how best to treat the recent economic events. Should the plan meet with sufficient success, a Political Economy Club Day will be held each summer at Chautauqua.

ON THE fifteenth of November the organization of the Historical and Political Science Association of the University of Wisconsin was perfected in Madison. Dr. Richard T. Ely is at the head of the Association, and wishes by means of it to create a close relationship between the graduate departments of the university and the practical outside world.

THE *Arena* is publishing a series of articles by Mrs. Helen Campbell on "Women Wage-Earners of America and Europe." The article in the January number gives a brief account of early conditions of factory life and of the improvements that have been made in it. The February article gives a brief account of the increase and condition of women wage-earners. Mrs. Campbell gives figures showing

their number and their kinds of work at different times, and analyzes the work of the Labor Bureau investigations into the subject. The series promises to be valuable to the student of the labor problem.

HOLLAND has given a more enduring and satisfactory organization to its official statistics. Hitherto a private association, the institute of Statistics, under the able guidance of the late Professor Benajon, and latterly of Dr. Verrijn Stuart, has been charged with collection and publication of the Dutch statistics. This organization gave place on January 1, 1893, to a Central Commission for Statistics, organized under a decree of October 6, 1892. Baron W. A. Van Verschuier is the president of the Commission and Dr. Verrijn Stuart, the secretary. The Commission will continue the publication of the Year Book, but the "*Bijdragen*" will cease to exist, but the programme leads us to hope for more extended publications in lieu of the latter.

THE sixth and final number of the first series of American History Leaflets, edited by Professors Hart and Channing, of Harvard, is devoted to "Extracts from official papers relating to the Behring Sea controversy 1890-92." The following topics are chosen for the second series:—

(1) Articles and Ordinances of the Confederation of New England, 1643-1684. (2) Exact Text of the Constitution of the United States. (3) Papers relating to the Voyages of John Cabot, 1497-98. (4) Gov. McDuffie's Message on the Slavery Question, 1835. (5) Jefferson's Proposed Instructions to the Virginia Delegation, 1774. (6) Ordinances and other papers relating to Secession, 1860-61. It is to be hoped that this is only the beginning of a movement to render the sources of our history more accessible.

IT is an encouraging indication of growing interest in Political Science that the Clarendon Press has found it necessary to issue a second edition of Bluntschli's "Theory of the State."* The translators, Messrs. Ritchie, Matheson and Lodge, of Oxford, have made a few corrections and added a few references, but the book is in the main a reprint of the first edition.

* "THE THEORY OF THE STATE," by J. K. BLUNTSCHLI, authorized English translation from the sixth German edition. Second edition, pp. xxv., 550. Oxford at the Clarendon Press. 1892.